



# ANNUAL STATEMENT

For the Year Ended December 31, 2008  
of the Condition and Affairs of the

## MAMSI Life and Health Insurance Company

|   |   |  |
|---|---|--|
| NAIC Group Code.....0707, 0707<br>(Current Period) (Prior Period) | NAIC Company Code..... 60321  | Employer's ID Number..... 52-1803283   |
| Organized under the Laws of Maryland                              | State of Domicile or Port of Entry Maryland   | Country of Domicile US   |
| Licensed as Business Type.....Life, Accident & Health             | Is HMO Federally Qualified? Yes [ ] No [X]  |  |
| Incorporated/Organized..... September 12, 1955                    | Commenced Business..... November 1, 1955  |  |
| Statutory Home Office   | 4 Taft Court..... Rockville ..... MD ..... 20850<br>(Street and Number) (City or Town, State and Zip Code)              |  |
| Main Administrative Office  | 4 Taft Court..... Rockville ..... MD ..... 20850<br>(Street and Number) (City or Town, State and Zip Code)              | 301-762-8205<br>(Area Code) (Telephone Number)                                 |
| Mail Address  | 4 Taft Court..... Rockville ..... MD ..... 20850<br>(Street and Number or P. O. Box) (City or Town, State and Zip Code) |  |
| Primary Location of Books and Records                             | 4 Taft Court..... Rockville ..... MD ..... 20850<br>(Street and Number) (City or Town, State and Zip Code)              | 301-294-1578<br>(Area Code) (Telephone Number)                                 |
| Internet Web Site Address   | www.mamsiunitedhealthcare.com   |  |
| Statutory Statement Contact                                       | Karen Ann Cuddy<br>(Name)<br>kcuddy@uhc.com<br>(E-Mail Address)   | 301-294-1578<br>(Area Code) (Telephone Number) (Extension)<br><br>(Fax Number) |

### OFFICERS

| Name                       | Title   | Name                         | Title               |
|----------------------------|---|------------------------------|---------------------|
| James Patrick Cronin Jr. # | President and CEO   | Juanita Valarae Bolland Luis | Assistant Secretary |
| Nyle Brent Cottington #    | Vice President, Regulatory Controller and Assistant Treasurer |                              |                     |

### OTHER

|                          |  |                         |                               |
|--------------------------|--|-------------------------|-------------------------------|
| Vera Cermin Dvorak M.D.  | Executive Vice President, Medical Director | Robert Worth Oberrender | Treasurer                     |
| Craig Charles Anderson # | Vice President, Chief Financial Officer    | Patricia Anne Bowen #   | General Counsel and Secretary |
| Julie Michelle Darling   | Assistant Secretary                        | John Dominick DeRosa    | Vice President                |
| Jeffrey Donald Alter #   | Chairman                                   |                         |                               |

### DIRECTORS OR TRUSTEES

|                          |                         |                      |                       |
|--------------------------|-------------------------|----------------------|-----------------------|
| Jeffrey Donald Alter #   | Nyle Brent Cottington # | John Dominick DeRosa | Patricia Anne Bowen # |
| Craig Charles Anderson # | Vera Cermin Dvorak M.D. | Mark Henry Smith     | Sanford Paul Cohen #  |
| Karen Ann Cuddy          |                         |                      |                       |

|                      |                    |                    |
|----------------------|--------------------|--------------------|
| State of Maryland    | State of Minnesota | State of Minnesota |
| County of Montgomery | County of Hennepin | County of Hennepin |

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

|   |   |  |
|---|---|--|
| (Signature)<br>James Patrick Cronin Jr. | (Signature)<br>Juanita Valarae Bolland Luis | (Signature)<br>Nyle Brent Cottington   |
| 1. (Printed Name)<br>President and CEO  | 2. (Printed Name)<br>Assistant Secretary    | 3. (Printed Name)<br>Vice President, Regulatory Controller and Assistant Treasurer |
| (Title)                                 | (Title)                                     | (Title)  |

|                                   |                                   |                                   |
|-----------------------------------|-----------------------------------|-----------------------------------|
| Subscribed and sworn to before me | Subscribed and sworn to before me | Subscribed and sworn to before me |
| This _____ day of _____           | This _____ day of _____           | This _____ day of _____           |

|                                |                |
|--------------------------------|----------------|
| a. Is this an original filing? | Yes [X] No [ ] |
| b. If no:                      |                |
| 1. State the amendment number  | _____          |
| 2. Date filed                  | _____          |
| 3. Number of pages attached    | _____          |

ASSETS

|  | Current Year |                    |                                   | Prior Year          |
|--|--------------|--------------------|-----------------------------------|---------------------|
|  | 1            | 2                  | 3                                 | 4                   |
|  | Assets       | Nonadmitted Assets | Net Admitted Assets (Cols. 1 - 2) | Net Admitted Assets |
| 1. Bonds (Schedule D).....   | 105,591,971  |                    | 105,591,971                       | 102,346,383         |
| 2. Stocks (Schedule D):  |              |                    |                                   |                     |
| 2.1 Preferred stocks.....  |              |                    | 0                                 |                     |
| 2.2 Common stocks.....   |              |                    | 0                                 |                     |
| 3. Mortgage loans on real estate (Schedule B):   |              |                    |                                   |                     |
| 3.1 First liens.....   |              |                    | 0                                 |                     |
| 3.2 Other than first liens.....  |              |                    | 0                                 |                     |
| 4. Real estate (Schedule A):   |              |                    |                                   |                     |
| 4.1 Properties occupied by the company (less \$.....0 encumbrances).....   |              |                    | 0                                 |                     |
| 4.2 Properties held for the production of income (less \$.....0 encumbrances).....   |              |                    | 0                                 |                     |
| 4.3 Properties held for sale (less \$.....0 encumbrances).....   |              |                    | 0                                 |                     |
| 5. Cash (\$.....(3,797,513), Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....80,589,342, Sch. DA)..... | 76,791,829   |                    | 76,791,829                        | 52,981,349          |
| 6. Contract loans (including \$.....0 premium notes).....  |              |                    | 0                                 |                     |
| 7. Other invested assets (Schedule BA).....  |              |                    | 0                                 |                     |
| 8. Receivables for securities.....   | 4            |                    | 4                                 | 1                   |
| 9. Aggregate write-ins for invested assets.....  | 0            | 0                  | 0                                 | 0                   |
| 10. Subtotals, cash and invested assets (Lines 1 to 9).....  | 182,383,804  | 0                  | 182,383,804                       | 155,327,733         |
| 11. Title plants less \$.....0 charged off (for Title insurers only).....  |              |                    | 0                                 |                     |
| 12. Investment income due and accrued.....   | 1,269,853    |                    | 1,269,853                         | 1,197,760           |
| 13. Premiums and considerations:   |              |                    |                                   |                     |
| 13.1 Uncollected premiums and agents' balances in course of collection.....  | 1,640,106    | 275,933            | 1,364,173                         | 2,840,777           |
| 13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums)..... |              |                    | 0                                 |                     |
| 13.3 Accrued retrospective premiums.....   |              |                    | 0                                 |                     |
| 14. Reinsurance:   |              |                    |                                   |                     |
| 14.1 Amounts recoverable from reinsurers.....  |              |                    | 0                                 |                     |
| 14.2 Funds held by or deposited with reinsured companies.....  |              |                    | 0                                 |                     |
| 14.3 Other amounts receivable under reinsurance contracts.....   |              |                    | 0                                 |                     |
| 15. Amounts receivable relating to uninsured plans.....  | 532,240      |                    | 532,240                           | 1,421,488           |
| 16.1 Current federal and foreign income tax recoverable and interest thereon.....  | 995,064      |                    | 995,064                           |                     |
| 16.2 Net deferred tax asset.....   | 1,285,836    | 358,165            | 927,671                           | 2,768,919           |
| 17. Guaranty funds receivable or on deposit.....   |              |                    | 0                                 |                     |
| 18. Electronic data processing equipment and software.....   |              |                    | 0                                 |                     |
| 19. Furniture and equipment, including health care delivery assets (\$.....0).....   |              |                    | 0                                 |                     |
| 20. Net adjustment in assets and liabilities due to foreign exchange rates.....  |              |                    | 0                                 |                     |
| 21. Receivables from parent, subsidiaries and affiliates.....  | 1,768,691    |                    | 1,768,691                         | 30,871,351          |
| 22. Health care (\$.....325,972) and other amounts receivable.....   | 1,420,343    | 1,094,371          | 325,972                           | 29,471              |
| 23. Aggregate write-ins for other than invested assets.....  | 5,858,107    | 506,415            | 5,351,692                         | 6,288,812           |
| 24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....                                  | 197,154,044  | 2,234,884          | 194,919,160                       | 200,746,311         |
| 25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....   |              |                    | 0                                 |                     |
| 26. TOTALS (Lines 24 and 25).....  | 197,154,044  | 2,234,884          | 194,919,160                       | 200,746,311         |

| DETAILS OF WRITE-INS   |           |         |           |           |
|--|-----------|---------|-----------|-----------|
| 0901. ....   |           |         | 0         |           |
| 0902. ....   |           |         | 0         |           |
| 0903. ....   |           |         | 0         |           |
| 0998. Summary of remaining write-ins for Line 9 from overflow page.....  | 0         | 0       | 0         | 0         |
| 0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....        | 0         | 0       | 0         | 0         |
| 2301. Hospital Deposits.....   | 5,046,698 |         | 5,046,698 | 6,260,314 |
| 2302. Prepays.....   | 653,259   | 348,265 | 304,994   | 28,498    |
| 2303. Goodwill.....  | 158,150   | 158,150 | 0         |           |
| 2398. Summary of remaining write-ins for Line 23 from overflow page..... | 0         | 0       | 0         | 0         |
| 2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....       | 5,858,107 | 506,415 | 5,351,692 | 6,288,812 |

LIABILITIES, CAPITAL AND SURPLUS

|  | Current Period |                |             | Prior Year  |
|--|----------------|----------------|-------------|-------------|
|  | 1<br>Covered   | 2<br>Uncovered | 3<br>Total  | 4<br>Total  |
| 1. Claims unpaid (less \$.....0 reinsurance ceded).....  | 17,078,850     | 3,058,928      | 20,137,778  | 39,305,950  |
| 2. Accrued medical incentive pool and bonus amounts.....   |                |                | 0           |             |
| 3. Unpaid claims adjustment expenses.....  | 216,823        | 38,834         | 255,657     | 559,444     |
| 4. Aggregate health policy reserves.....   |                | 348,397        | 348,397     | 3,251,733   |
| 5. Aggregate life policy reserves.....   |                | 111,230        | 111,230     | 118,600     |
| 6. Property/casualty unearned premium reserve.....   |                |                | 0           |             |
| 7. Aggregate health claim reserves.....  | 135,747        | 24,314         | 160,061     | 297,810     |
| 8. Premiums received in advance.....   |                | 4,247,509      | 4,247,509   | 3,009,208   |
| 9. General expenses due or accrued.....  |                | 835,890        | 835,890     | 1,393,355   |
| 10.1 Current federal and foreign income tax payable and interest thereon<br>(including \$.....0 on realized capital gains (losses))..... |                |                | 0           | 8,844,803   |
| 10.2 Net deferred tax liability.....   |                |                | 0           |             |
| 11. Ceded reinsurance premiums payable.....  |                |                | 0           |             |
| 12. Amounts withheld or retained for the account of others.....  |                | 1,005          | 1,005       | 548         |
| 13. Remittances and items not allocated.....   |                |                | 0           |             |
| 14. Borrowed money (including \$.....0 current) and interest<br>thereon \$.....0 (including \$.....0 current).....                       |                |                | 0           |             |
| 15. Amounts due to parent, subsidiaries and affiliates.....  |                |                | 0           |             |
| 16. Payable for securities.....  |                |                | 0           |             |
| 17. Funds held under reinsurance treaties with (\$.....0<br>authorized reinsurers and \$.....0 unauthorized reinsurers).....             |                |                | 0           |             |
| 18. Reinsurance in unauthorized companies.....   |                |                | 0           |             |
| 19. Net adjustments in assets and liabilities due to foreign exchange rates.....   |                |                | 0           |             |
| 20. Liability for amounts held under uninsured plans.....  |                |                | 0           |             |
| 21. Aggregate write-ins for other liabilities (including \$.....0 current).....  | 0              | 631,065        | 631,065     | 448,801     |
| 22. Total liabilities (Lines 1 to 21).....   | 17,431,420     | 9,297,172      | 26,728,592  | 57,230,252  |
| 23. Aggregate write-ins for special surplus funds.....   | XXX            | XXX            | 0           | 0           |
| 24. Common capital stock.....  | XXX            | XXX            | 2,512,500   | 2,512,500   |
| 25. Preferred capital stock.....   | XXX            | XXX            |             |             |
| 26. Gross paid in and contributed surplus.....   | XXX            | XXX            | 23,552,942  | 23,552,942  |
| 27. Surplus notes.....   | XXX            | XXX            |             |             |
| 28. Aggregate write-ins for other than special surplus funds.....  | XXX            | XXX            | 0           | 0           |
| 29. Unassigned funds (surplus).....  | XXX            | XXX            | 143,175,126 | 118,500,617 |
| 30. Less treasury stock at cost:   |                |                |             |             |
| 30.1 .....0.000 shares common (value included in Line 24 \$.....0).....  | XXX            | XXX            | 1,050,000   | 1,050,000   |
| 30.2 .....0.000 shares preferred (value included in Line 25 \$.....0).....   | XXX            | XXX            |             |             |
| 31. Total capital and surplus (Lines 23 to 29 minus Line 30).....  | XXX            | XXX            | 168,190,568 | 143,516,059 |
| 32. Total liabilities, capital and surplus (Lines 22 and 31).....  | XXX            | XXX            | 194,919,160 | 200,746,311 |

DETAILS OF WRITE-INS

|  |     |         |         |         |
|--|-----|---------|---------|---------|
| 2101. Unclaimed Property.....  |     | 631,065 | 631,065 | 448,801 |
| 2102. ....   |     |         | 0       |         |
| 2103. ....   |     |         | 0       |         |
| 2198. Summary of remaining write-ins for Line 21 from overflow page..... | 0   | 0       | 0       | 0       |
| 2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....       | 0   | 631,065 | 631,065 | 448,801 |
| 2301. ....   | XXX | XXX     |         |         |
| 2302. ....   | XXX | XXX     |         |         |
| 2303. ....   | XXX | XXX     |         |         |
| 2398. Summary of remaining write-ins for Line 23 from overflow page..... | XXX | XXX     | 0       | 0       |
| 2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....       | XXX | XXX     | 0       | 0       |
| 2801. ....   | XXX | XXX     |         |         |
| 2802. ....   | XXX | XXX     |         |         |
| 2803. ....   | XXX | XXX     |         |         |
| 2898. Summary of remaining write-ins for Line 28 from overflow page..... | XXX | XXX     | 0       | 0       |
| 2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....       | XXX | XXX     | 0       | 0       |

STATEMENT OF REVENUE AND EXPENSES

|  | Current Year    |                  | Prior Year       |
|--|-----------------|------------------|------------------|
|  | 1<br>Uncovered  | 2<br>Total       | 3<br>Total       |
| 1. Member months.....  | XXX.....        | 1,398,308.....   | 1,964,295.....   |
| 2. Net premium income (including \$.....1,665,383 non-health premium income).....  | XXX.....        | 236,009,097..... | 375,828,034..... |
| 3. Change in unearned premium reserves and reserve for rate credits.....   | XXX.....        | 211,500.....     | 417,585.....     |
| 4. Fee-for-service (net of \$.....0 medical expenses).....   | XXX.....        | .....            | .....            |
| 5. Risk revenue.....   | XXX.....        | .....            | 27,955,780.....  |
| 6. Aggregate write-ins for other health care related revenues.....   | XXX.....        | 0.....           | 0.....           |
| 7. Aggregate write-ins for other non-health revenues.....  | XXX.....        | 0.....           | 0.....           |
| 8. Total revenues (Lines 2 to 7).....  | XXX.....        | 236,220,597..... | 404,201,399..... |
| Hospital and Medical:  |                 |                  |                  |
| 9. Hospital/medical benefits.....  | 20,129,517..... | 132,518,217..... | 249,392,270..... |
| 10. Other professional services.....   | 986,639.....    | 6,495,318.....   | 88,378.....      |
| 11. Outside referrals.....   | .....           | .....            | .....            |
| 12. Emergency room and out-of-area.....  | .....           | .....            | .....            |
| 13. Prescription drugs.....  | 4,676,840.....  | 30,788,942.....  | 50,045,376.....  |
| 14. Aggregate write-ins for other hospital and medical.....  | 0.....          | 0.....           | 0.....           |
| 15. Incentive pool, withhold adjustments and bonus amounts.....  | .....           | .....            | .....            |
| 16. Subtotal (Lines 9 to 15).....  | 25,792,996..... | 169,802,477..... | 299,526,024..... |
| Less:  |                 |                  |                  |
| 17. Net reinsurance recoveries.....  | .....           | .....            | .....            |
| 18. Total hospital and medical (Lines 16 minus 17).....  | 25,792,996..... | 169,802,477..... | 299,526,024..... |
| 19. Non-health claims (net).....   | .....           | 765,965.....     | 715,614.....     |
| 20. Claims adjustment expenses, including \$.....1,456,811 cost containment expenses.....  | .....           | 2,973,856.....   | 3,045,317.....   |
| 21. General administrative expenses.....   | .....           | 17,594,147.....  | 35,077,647.....  |
| 22. Increase in reserves for life and accident and health contracts including \$....(7,370) increase in reserves for life only)..... | .....           | (2,679,365)..... | 2,405,594.....   |
| 23. Total underwriting deductions (Lines 18 through 22).....   | 25,792,996..... | 188,457,080..... | 340,770,196..... |
| 24. Net underwriting gain or (loss) (Lines 8 minus 23).....  | XXX.....        | 47,763,517.....  | 63,431,203.....  |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....  | .....           | 6,925,770.....   | 8,293,916.....   |
| 26. Net realized capital gains or (losses) less capital gains tax of \$....33,794.....   | .....           | (1,011,743)..... | 88,788.....      |
| 27. Net investment gains or (losses) (Lines 25 plus 26).....   | 0.....          | 5,914,027.....   | 8,382,704.....   |
| 28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)]..... | .....           | .....            | .....            |
| 29. Aggregate write-ins for other income or expenses.....  | 0.....          | (228,777).....   | 457,037.....     |
| 30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....   | XXX.....        | 53,448,767.....  | 72,270,944.....  |
| 31. Federal and foreign income taxes incurred.....   | XXX.....        | 17,868,702.....  | 24,617,000.....  |
| 32. Net income (loss) (Lines 30 minus 31).....   | XXX.....        | 35,580,065.....  | 47,653,944.....  |

DETAILS OF WRITE-INS

|  |          |                |               |
|--|----------|----------------|---------------|
| 0601. ....   | XXX..... | .....          | .....         |
| 0602. ....   | XXX..... | .....          | .....         |
| 0603. ....   | XXX..... | .....          | .....         |
| 0698. Summary of remaining write-ins for Line 6 from overflow page.....  | XXX..... | 0.....         | 0.....        |
| 0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....        | XXX..... | 0.....         | 0.....        |
| 0701. ....   | XXX..... | .....          | .....         |
| 0702. ....   | XXX..... | .....          | .....         |
| 0703. ....   | XXX..... | .....          | .....         |
| 0798. Summary of remaining write-ins for Line 7 from overflow page.....  | XXX..... | 0.....         | 0.....        |
| 0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....        | XXX..... | 0.....         | 0.....        |
| 1401. ....   | .....    | .....          | .....         |
| 1402. ....   | .....    | .....          | .....         |
| 1403. ....   | .....    | .....          | .....         |
| 1498. Summary of remaining write-ins for Line 14 from overflow page..... | 0.....   | 0.....         | 0.....        |
| 1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....       | 0.....   | 0.....         | 0.....        |
| 2901. Other Revenue.....   | .....    | 11,068.....    | 471,163.....  |
| 2902. Regulatory Fines and Penalties.....                                | .....    | (239,845)..... | (14,126)..... |
| 2903. ....   | .....    | .....          | .....         |
| 2998. Summary of remaining write-ins for Line 29 from overflow page..... | 0.....   | 0.....         | 0.....        |
| 2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....       | 0.....   | (228,777)..... | 457,037.....  |

MAMSI Life and Health Insurance Company  
STATEMENT OF REVENUE AND EXPENSES (Continued)

| CAPITAL AND SURPLUS ACCOUNT   | 1<br>Current Year | 2<br>Prior Year  |
|---|-------------------|------------------|
| 33. Capital and surplus prior reporting period.....   | .....143,516,059  | .....97,096,794  |
| 34. Net income or (loss) from Line 32.....  | .....35,580,065   | .....47,653,944  |
| 35. Change in valuation basis of aggregate policy and claim reserves.....                           | .....             | .....            |
| 36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....(334)..... | .....(620)        | .....            |
| 37. Change in net unrealized foreign exchange capital gain or (loss).....                           | .....             | .....            |
| 38. Change in net deferred income tax.....  | .....(1,736,749)  | .....(311,039)   |
| 39. Change in nonadmitted assets.....   | .....4,503,579    | .....(1,028,018) |
| 40. Change in unauthorized reinsurance.....   | .....             | .....            |
| 41. Change in treasury stock.....   | .....             | .....            |
| 42. Change in surplus notes.....  | .....             | .....(9,900,000) |
| 43. Cumulative effect of changes in accounting principles.....                                      | .....             | .....            |
| 44. Capital changes:  |                   |                  |
| 44.1 Paid in.....   | .....             | .....            |
| 44.2 Transferred from surplus (Stock Dividend).....   | .....             | .....            |
| 44.3 Transferred to surplus.....  | .....             | .....            |
| 45. Surplus adjustments:  |                   |                  |
| 45.1 Paid in.....   | .....             | .....            |
| 45.2 Transferred to capital (Stock Dividend).....   | .....             | .....            |
| 45.3 Transferred from capital.....  | .....             | .....            |
| 46. Dividends to stockholders.....  | .....(14,351,600) | .....            |
| 47. Aggregate write-ins for gains or (losses) in surplus.....                                       | .....679,834      | .....10,004,378  |
| 48. Net change in capital and surplus (Lines 34 to 47).....   | .....24,674,509   | .....46,419,265  |
| 49. Capital and surplus end of reporting period (Line 33 plus 48).....                              | .....168,190,568  | .....143,516,059 |

| DETAILS OF WRITE-INS   |              |                 |
|--|--------------|-----------------|
| 4701. Correction of prior period errors.....                             | .....679,834 | .....10,004,378 |
| 4702. ....   | .....        | .....           |
| 4703. ....   | .....        | .....           |
| 4798. Summary of remaining write-ins for Line 47 from overflow page..... | .....0       | .....0          |
| 4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....       | .....679,834 | .....10,004,378 |

CASH FLOW

|  | 1<br>Current Year | 2<br>Prior Year |
|--|-------------------|-----------------|
| CASH FROM OPERATIONS   |                   |                 |
| 1. Premiums collected net of reinsurance.....  | 239,395,915       | 373,354,711     |
| 2. Net investment income.....  | 7,393,565         | 8,253,715       |
| 3. Miscellaneous income.....   |                   | 28,426,943      |
| 4. Total (Lines 1 through 3).....  | 246,789,480       | 410,035,369     |
| 5. Benefit and loss related payments.....  | 189,330,665       | 321,913,931     |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....                    |                   |                 |
| 7. Commissions, expenses paid and aggregate write-ins for deductions.....                                      | 19,916,642        | 37,399,748      |
| 8. Dividends paid to policyholders.....  |                   |                 |
| 9. Federal and foreign income taxes paid (recovered) net of \$.0 tax on capital gains (losses).....            | 27,742,363        | 17,735,221      |
| 10. Total (Lines 5 through 9).....   | 236,989,670       | 377,048,900     |
| 11. Net cash from operations (Line 4 minus Line 10).....   | 9,799,810         | 32,986,469      |
| CASH FROM INVESTMENTS  |                   |                 |
| 12. Proceeds from investments sold, matured or repaid:   |                   |                 |
| 12.1 Bonds.....  | 24,438,617        | 20,600,760      |
| 12.2 Stocks.....   |                   |                 |
| 12.3 Mortgage loans.....   |                   |                 |
| 12.4 Real estate.....  |                   |                 |
| 12.5 Other invested assets.....  |                   |                 |
| 12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....                           |                   |                 |
| 12.7 Miscellaneous proceeds.....   |                   |                 |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7).....   | 24,438,617        | 20,600,760      |
| 13. Cost of investments acquired (long-term only):   |                   |                 |
| 13.1 Bonds.....  | 29,202,996        | 52,013,480      |
| 13.2 Stocks.....   |                   |                 |
| 13.3 Mortgage loans.....   |                   |                 |
| 13.4 Real estate.....  |                   |                 |
| 13.5 Other invested assets.....  |                   |                 |
| 13.6 Miscellaneous applications.....   | 3                 | 1               |
| 13.7 Total investments acquired (Lines 13.1 to 13.6).....  | 29,202,999        | 52,013,481      |
| 14. Net increase (decrease) in contract loans and premium notes.....   |                   |                 |
| 15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14).....                                  | (4,764,382)       | (31,412,721)    |
| CASH FROM FINANCING AND MISCELLANEOUS SOURCES  |                   |                 |
| 16. Cash provided (applied):   |                   |                 |
| 16.1 Surplus notes, capital notes.....   |                   | (9,900,000)     |
| 16.2 Capital and paid in surplus, less treasury stock.....   |                   |                 |
| 16.3 Borrowed funds.....   |                   |                 |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities.....                               |                   |                 |
| 16.5 Dividends to stockholders.....  | 14,351,600        |                 |
| 16.6 Other cash provided (applied).....  | 33,126,652        | (20,019,550)    |
| 17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)..... | 18,775,052        | (29,919,550)    |
| RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS  |                   |                 |
| 18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....   | 23,810,480        | (28,345,802)    |
| 19. Cash, cash equivalents and short-term investments:   |                   |                 |
| 19.1 Beginning of year.....  | 52,981,349        | 81,327,151      |
| 19.2 End of year (Line 18 plus Line 19.1).....   | 76,791,829        | 52,981,349      |
| Note: Supplemental disclosures of cash flow information for non-cash transactions:                             |                   |                 |
| 20.0001 .....  |                   |                 |



UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

|                  |   | 1                  | 2                      | 3                    | 4  |
|------------------|---|--------------------|------------------------|----------------------|--|
| Line of Business |   | Direct<br>Business | Reinsurance<br>Assumed | Reinsurance<br>Ceded | Net Premium<br>Income<br>(Cols. 1 + 2 - 3) |
| 1.               | Comprehensive (hospital and medical).....   | 221,213,632        |                        |                      | 221,213,632                                |
| 2.               | Medicare supplement.....                    |                    |                        |                      | 0  |
| 3.               | Dental only.....                            | 12,150,176         |                        |                      | 12,150,176                                 |
| 4.               | Vision only.....                            |                    |                        |                      | 0  |
| 5.               | Federal employees health benefits plan..... |                    |                        |                      | 0  |
| 6.               | Title XVIII - Medicare.....                 |                    |                        |                      | 0  |
| 7.               | Title XIX - Medicaid.....                   |                    |                        |                      | 0  |
| 8.               | Other health.....                           | 979,906            |                        |                      | 979,906                                    |
| 9.               | Health subtotal (Lines 1 through 8).....    | 234,343,714        | 0                      | 0                    | 234,343,714                                |
| 10.              | Life.....                                   | 1,665,383          |                        |                      | 1,665,383                                  |
| 11.              | Property/casualty.....                      |                    |                        |                      | 0  |
| 12.              | Totals (Lines 9 to 11).....                 | 236,009,097        | 0                      | 0                    | 236,009,097                                |



UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

|   | 1           | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9               | 10                  |
|---|-------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-----------------|---------------------|
|   | Total       | Comprehensive<br>(Hospital<br>and Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Payments during the year:  |             |  |                        |                |                |   |                            |                          |                 |                     |
| 1.1 Direct.....   | 189,315,110 | 178,764,047                                |                        | 8,911,430      |                |   |                            |                          | 837,605         | 802,028             |
| 1.2 Reinsurance assumed.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 1.3 Reinsurance ceded.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 1.4 Net.....  | 189,315,110 | 178,764,047                                | 0                      | 8,911,430      | 0              | 0   | 0                          | 0                        | 837,605         | 802,028             |
| 2. Paid medical incentive pools and bonuses.....                      | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 3. Claim liability December 31, current year from Part 2A:            |             |  |                        |                |                |   |                            |                          |                 |                     |
| 3.1 Direct.....   | 20,137,778  | 18,905,458                                 |                        | 493,342        |                |   |                            |                          | 347,885         | 391,093             |
| 3.2 Reinsurance assumed.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 3.3 Reinsurance ceded.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 3.4 Net.....  | 20,137,778  | 18,905,458                                 | 0                      | 493,342        | 0              | 0   | 0                          | 0                        | 347,885         | 391,093             |
| 4. Claim reserve December 31, current year from Part 2D:              |             |  |                        |                |                |   |                            |                          |                 |                     |
| 4.1 Direct.....   | 160,061     | 153,876                                    |                        |                |                |   |                            |                          | 6,185           |                     |
| 4.2 Reinsurance assumed.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 4.3 Reinsurance ceded.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 4.4 Net.....  | 160,061     | 153,876                                    | 0                      | 0              | 0              | 0   | 0                          | 0                        | 6,185           | 0                   |
| 5. Accrued medical incentive pools and bonuses, current year.....     | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 6. Net healthcare receivables (a).....                                | (559,253)   | (559,253)                                  |                        |                |                |   |                            |                          |                 |                     |
| 7. Amounts recoverable from reinsurers December 31, current year..... | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 8. Claim liability December 31, prior year from Part 2A:              |             |  |                        |                |                |   |                            |                          |                 |                     |
| 8.1 Direct.....   | 39,305,950  | 35,161,668                                 |                        | 3,206,275      |                |   |                            |                          | 510,851         | 427,156             |
| 8.2 Reinsurance assumed.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 8.3 Reinsurance ceded.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 8.4 Net.....  | 39,305,950  | 35,161,668                                 | 0                      | 3,206,275      | 0              | 0   | 0                          | 0                        | 510,851         | 427,156             |
| 9. Claim reserve December 31, prior year from Part 2D:                |             |  |                        |                |                |   |                            |                          |                 |                     |
| 9.1 Direct.....   | 297,810     | 279,308                                    |                        |                |                |   |                            |                          | 18,502          |                     |
| 9.2 Reinsurance assumed.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 9.3 Reinsurance ceded.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 9.4 Net.....  | 297,810     | 279,308                                    | 0                      | 0              | 0              | 0   | 0                          | 0                        | 18,502          | 0                   |
| 10. Accrued medical incentive pools and bonuses, prior year.....      | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 11. Amounts recoverable from reinsurers December 31, prior year.....  | 0           |  |                        |                |                |   |                            |                          |                 |                     |
| 12. Incurred benefits:  |             |  |                        |                |                |   |                            |                          |                 |                     |
| 12.1 Direct.....  | 170,568,442 | 162,941,658                                | 0                      | 6,198,497      | 0              | 0   | 0                          | 0                        | 662,322         | 765,965             |
| 12.2 Reinsurance assumed.....   | 0           | 0  | 0                      | 0              | 0              | 0   | 0                          | 0                        | 0               | 0                   |
| 12.3 Reinsurance ceded.....   | 0           | 0  | 0                      | 0              | 0              | 0   | 0                          | 0                        | 0               | 0                   |
| 12.4 Net.....   | 170,568,442 | 162,941,658                                | 0                      | 6,198,497      | 0              | 0   | 0                          | 0                        | 662,322         | 765,965             |
| 13. Incurred medical incentive pools and bonuses.....                 | 0           | 0  | 0                      | 0              | 0              | 0   | 0                          | 0                        | 0               | 0                   |

(a) Excludes \$.0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

|   | 1          | 2  | 3                      | 4              | 5              | 6   | 7                          | 8                        | 9               | 10                  |
|---|------------|--|------------------------|----------------|----------------|---|----------------------------|--------------------------|-----------------|---------------------|
|   | Total      | Comprehensive<br>(Medical<br>and Hospital) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefits Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Reported in process of adjustment:                 |            |  |                        |                |                |   |                            |                          |                 |                     |
| 1.1 Direct.....                                       | 5,557,341  | 4,862,192                                  |                        | 469,849        |                |   |                            |                          |                 | 225,300             |
| 1.2 Reinsurance assumed.....                          | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 1.3 Reinsurance ceded.....                            | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 1.4 Net.....  | 5,557,341  | 4,862,192                                  | 0                      | 469,849        | 0              | 0   | 0                          | 0                        | 0               | 225,300             |
| 2. Incurred but unreported:                           |            |  |                        |                |                |   |                            |                          |                 |                     |
| 2.1 Direct.....                                       | 14,580,437 | 14,043,266                                 |                        | 23,493         |                |   |                            |                          | 347,885         | 165,793             |
| 2.2 Reinsurance assumed.....                          | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 2.3 Reinsurance ceded.....                            | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 2.4 Net.....  | 14,580,437 | 14,043,266                                 | 0                      | 23,493         | 0              | 0   | 0                          | 0                        | 347,885         | 165,793             |
| 3. Amounts withheld from paid claims and capitations: |            |  |                        |                |                |   |                            |                          |                 |                     |
| 3.1 Direct.....                                       | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 3.2 Reinsurance assumed.....                          | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 3.3 Reinsurance ceded.....                            | 0          |  |                        |                |                |   |                            |                          |                 |                     |
| 3.4 Net.....  | 0          | 0  | 0                      | 0              | 0              | 0   | 0                          | 0                        | 0               | 0                   |
| 4. Totals:  |            |  |                        |                |                |   |                            |                          |                 |                     |
| 4.1 Direct.....                                       | 20,137,778 | 18,905,458                                 | 0                      | 493,342        | 0              | 0   | 0                          | 0                        | 347,885         | 391,093             |
| 4.2 Reinsurance assumed.....                          | 0          | 0  | 0                      | 0              | 0              | 0   | 0                          | 0                        | 0               | 0                   |
| 4.3 Reinsurance ceded.....                            | 0          | 0  | 0                      | 0              | 0              | 0   | 0                          | 0                        | 0               | 0                   |
| 4.4 Net.....  | 20,137,778 | 18,905,458                                 | 0                      | 493,342        | 0              | 0   | 0                          | 0                        | 347,885         | 391,093             |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

| Line of Business                                   | Claims Paid<br>During the Year                                   |   | Claim Reserve and Claim Liability<br>December 31 of Current Year |   | 5  | 6   |
|--|--|---|--|---|--|---|
|  | 1<br>On Claims Incurred<br>Prior to January 1<br>of Current Year | 2<br>On Claims<br>Incurred During<br>the Year | 3<br>On Claims Unpaid<br>December 31 of<br>Prior Year            | 4<br>On Claims<br>Incurred During<br>the Year | Claims Incurred<br>in Prior Years<br>(Columns 1 + 3) | Estimated Claim<br>Reserve and<br>Claim Liability<br>December 31 of<br>Prior Year |
| 1. Comprehensive (hospital and medical).....       | 28,583,822   | 150,180,225                                   | 472,003  | 18,610,826                                    | 29,055,825   | 35,440,976  |
| 2. Medicare supplement.....                        |  |   |  |   | 0  |   |
| 3. Dental only.....                                | 2,797,090  | 6,114,340                                     | 259,490  | 210,359                                       | 3,056,580  | 3,206,275   |
| 4. Vision only.....                                |  |   |  |   | 0  |   |
| 5. Federal employees health benefits plan.....     |  |   |  |   | 0  |   |
| 6. Title XVIII - Medicare.....                     |  |   |  |   | 0  |   |
| 7. Title XIX - Medicaid.....                       |  |   |  |   | 0  |   |
| 8. Other health.....                               | 433,404  | 404,201                                       | 68,465   | 285,604                                       | 501,869  | 529,353   |
| 9. Health subtotal (Lines 1 to 8).....             | 31,814,316   | 156,698,766                                   | 799,958  | 19,106,789                                    | 32,614,274   | 39,176,604  |
| 10. Healthcare receivables (a).....                | 893,800  | 522,895                                       |  | 3,647   | 893,800  | 1,979,594   |
| 11. Other non-health.....                          |  | 802,028                                       | 30,000   | 361,093                                       | 30,000   | 427,156   |
| 12. Medical incentive pools and bonus amounts..... |  |   |  |   | 0  |   |
| 13. Totals (Lines 9 - 10 + 11 + 12).....           | 30,920,516   | 156,977,899                                   | 829,958  | 19,464,235                                    | 31,750,474   | 37,624,166  |

(a) Excludes \$.000 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses<br>Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                       | 1<br>2004                   | 2<br>2005 | 3<br>2006 | 4<br>2007 | 5<br>2008 |
| 1. Prior.....                         | 70,977                      | 70,977    | 70,977    | 70,977    | 70,977    |
| 2. 2004.....                          | 457,080                     | 561,063   | 560,898   | 560,898   | 560,898   |
| 3. 2005.....                          | .XXX                        | 361,107   | 418,360   | 418,107   | 418,107   |
| 4. 2006.....                          | .XXX                        | .XXX      | 363,556   | 416,538   | 416,494   |
| 5. 2007.....                          | .XXX                        | .XXX      | .XXX      | 268,153   | 300,012   |
| 6. 2008.....                          | .XXX                        | .XXX      | .XXX      | .XXX      | 156,698   |

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses<br>Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
|                                       | 1<br>2004  | 2<br>2005 | 3<br>2006 | 4<br>2007 | 5<br>2008 |
| 1. Prior.....                         | 127,660  | 70,977    | 70,977    | 70,977    | 70,977    |
| 2. 2004.....                          | 540,114  | 644,811   | 560,898   | 560,898   | 560,898   |
| 3. 2005.....                          | .XXX   | 364,300   | 428,757   | 418,107   | 418,107   |
| 4. 2006.....                          | .XXX   | .XXX      | 416,194   | 416,939   | 416,494   |
| 5. 2007.....                          | .XXX   | .XXX      | .XXX      | 306,926   | 300,840   |
| 6. 2008.....                          | .XXX   | .XXX      | .XXX      | .XXX      | 176,166   |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

| Years in Which<br>Premiums were Earned and<br>Claims were Incurred | 1<br><br>Premiums<br>Earned | 2<br><br>Claim<br>Payments | 3<br><br>Claim Adjustment<br>Expense Payments | 4<br><br>Percent<br>(Col. 3/2) | 5<br><br>Claim and Claim<br>Adjustment<br>Expense Payments<br>(Col. 2 + 3) | 6<br><br>Percent<br>(Col. 5/1) | 7<br><br>Claims<br>Unpaid | 8<br><br>Unpaid Claim<br>Adjustment<br>Expense | 9<br><br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | 10<br><br>Percent<br>(Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|--|--|---------------------------------|
| 1. 2004.....   | 659,787                     | 560,898                    | 889   | 0.2                            | 561,787  | 85.1                           |                           |  | 561,787  | 85.1                            |
| 2. 2005.....   | 553,067                     | 418,107                    | 9,556   | 2.3                            | 427,663  | 77.3                           |                           |  | 427,663  | 77.3                            |
| 3. 2006.....   | 512,015                     | 416,494                    | 4,594   | 1.1                            | 421,088  | 82.2                           |                           |  | 421,088  | 82.2                            |
| 4. 2007.....   | 373,525                     | 300,012                    | 2,920   | 1.0                            | 302,932  | 81.1                           | 831                       |  | 303,763  | 81.3                            |
| 5. 2008.....   | 234,561                     | 156,698                    | 2,974   | 1.9                            | 159,672  | 68.1                           | 19,467                    | 256  | 179,395  | 76.5                            |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses<br>Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                       | 1<br>2004                   | 2<br>2005 | 3<br>2006 | 4<br>2007 | 5<br>2008 |
| 1. Prior.....                         | 70,977                      | 70,977    | 70,977    | 70,977    | 70,977    |
| 2. 2004.....                          | 457,080                     | 561,063   | 560,898   | 560,898   | 560,898   |
| 3. 2005.....                          | XXX                         | 361,107   | 418,360   | 418,125   | 418,125   |
| 4. 2006.....                          | XXX                         | XXX       | 363,028   | 412,158   | 412,114   |
| 5. 2007.....                          | XXX                         | XXX       | XXX       | 235,654   | 264,282   |
| 6. 2008.....                          | XXX                         | XXX       | XXX       | XXX       | 150,180   |

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses<br>Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
|                                       | 1<br>2004  | 2<br>2005 | 3<br>2006 | 4<br>2007 | 5<br>2008 |
| 1. Prior.....                         | 127,660  | 70,977    | 70,977    | 70,977    | 70,977    |
| 2. 2004.....                          | 540,114  | 644,811   | 560,898   | 560,898   | 560,898   |
| 3. 2005.....                          | XXX  | 364,300   | 428,757   | 418,125   | 418,125   |
| 4. 2006.....                          | XXX  | XXX       | 415,421   | 412,559   | 412,114   |
| 5. 2007.....                          | XXX  | XXX       | XXX       | 270,692   | 265,077   |
| 6. 2008.....                          | XXX  | XXX       | XXX       | XXX       | 168,842   |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

| Years in Which<br>Premiums were Earned and<br>Claims were Incurred | 1<br><br>Premiums<br>Earned | 2<br><br>Claim<br>Payments | 3<br><br>Claim Adjustment<br>Expense Payments | 4<br><br>Percent<br>(Col. 3/2) | 5<br>Claim and Claim<br>Adjustment<br>Expense Payments<br>(Col. 2 + 3) | 6<br><br>Percent<br>(Col. 5/1) | 7<br><br>Claims<br>Unpaid | 8<br><br>Unpaid Claim<br>Adjustment<br>Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | 10<br><br>Percent<br>(Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2004.....   | 659,787                     | 560,898                    | 889   | 0.2                            | 561,787  | 85.1                           |                           |   | 561,787  | 85.1                            |
| 2. 2005.....   | 553,067                     | 418,125                    | 9,556   | 2.3                            | 427,681  | 77.3                           |                           |   | 427,681  | 77.3                            |
| 3. 2006.....   | 510,570                     | 412,114                    | 4,521   | 1.1                            | 416,635  | 81.6                           |                           |   | 416,635  | 81.6                            |
| 4. 2007.....   | 352,450                     | 264,282                    | 2,065   | 0.8                            | 266,347  | 75.6                           | 796                       |   | 267,143  | 75.8                            |
| 5. 2008.....   | 221,431                     | 150,180                    | 2,845   | 1.9                            | 153,025  | 69.1                           | 18,662                    | 256   | 171,943  | 77.7                            |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses<br>Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|---------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                       | 1<br>2004                   | 2<br>2005 | 3<br>2006 | 4<br>2007 | 5<br>2008 |
| 1. Prior.....                         | NONE                        |           |           |           |           |
| 2. 2004.....                          |                             |           |           |           |           |
| 3. 2005.....                          |                             |           |           |           |           |
| 4. 2006.....                          |                             |           |           |           |           |
| 5. 2007.....                          |                             |           |           |           |           |
| 6. 2008.....                          |                             |           |           |           |           |

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses<br>Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|---------------------------------------|--|-----------|-----------|-----------|-----------|
|                                       | 1<br>2004  | 2<br>2005 | 3<br>2006 | 4<br>2007 | 5<br>2008 |
| 1. Prior.....                         | NONE   |           |           |           |           |
| 2. 2004.....                          |  |           |           |           |           |
| 3. 2005.....                          |  |           |           |           |           |
| 4. 2006.....                          |  |           |           |           |           |
| 5. 2007.....                          |  |           |           |           |           |
| 6. 2008.....                          |  |           |           |           |           |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

| Years in Which<br>Premiums were Earned and<br>Claims were Incurred | 1<br><br>Premiums<br>Earned | 2<br><br>Claim<br>Payments | 3<br><br>Claim Adjustment<br>Expense Payments | 4<br><br>Percent<br>(Col. 3/2) | 5<br>Claim and Claim<br>Adjustment<br>Expense Payments<br>(Col. 2 + 3) | 6<br><br>Percent<br>(Col. 5/1) | 7<br><br>Claims<br>Unpaid | 8<br><br>Unpaid Claim<br>Adjustment<br>Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | 10<br><br>Percent<br>(Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2004.....   |                             |                            |   | 0.0                            | 0  | 0.0                            |                           |   | 0  | 0.0                             |
| 2. 2005.....   |                             |                            |   | 0.0                            | 0  | 0.0                            |                           |   | 0  | 0.0                             |
| 3. 2006.....   |                             |                            |   | 0.0                            | 0  | 0.0                            |                           |   | 0  | 0.0                             |
| 4. 2007.....   |                             |                            |   | 0.0                            | 0  | 0.0                            |                           |   | 0  | 0.0                             |
| 5. 2008.....   |                             |                            |   | 0.0                            | 0  | 0.0                            |                           |   | 0  | 0.0                             |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses<br>Were Incurred | Cumulative Net Amounts Paid |           |           |             |             |
|---------------------------------------|-----------------------------|-----------|-----------|-------------|-------------|
|                                       | 1<br>2004                   | 2<br>2005 | 3<br>2006 | 4<br>2007   | 5<br>2008   |
| 1. Prior.....                         |                             |           |           |             |             |
| 2. 2004.....                          |                             |           |           |             |             |
| 3. 2005.....                          | ..XXX.                      |           |           | .....(18)   | .....(18)   |
| 4. 2006.....                          | ..XXX.                      | ..XXX.    |           | .....3,851  | .....3,851  |
| 5. 2007.....                          | ..XXX.                      | ..XXX.    | ..XXX.    | .....30,039 | .....32,836 |
| 6. 2008.....                          | ..XXX.                      | ..XXX.    | ..XXX.    | .....XXX.   | .....6,114  |

SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses<br>Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |             |             |
|---------------------------------------|--|-----------|-----------|-------------|-------------|
|                                       | 1<br>2004  | 2<br>2005 | 3<br>2006 | 4<br>2007   | 5<br>2008   |
| 1. Prior.....                         |  |           |           |             |             |
| 2. 2004.....                          |  |           |           |             |             |
| 3. 2005.....                          | ..XXX.   |           |           | .....(18)   | .....(18)   |
| 4. 2006.....                          | ..XXX.   | ..XXX.    |           | .....3,851  | .....3,851  |
| 5. 2007.....                          | ..XXX.   | ..XXX.    | ..XXX.    | .....33,245 | .....32,855 |
| 6. 2008.....                          | ..XXX.   | ..XXX.    | ..XXX.    | .....XXX.   | .....6,574  |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

| Years in Which<br>Premiums were Earned and<br>Claims were Incurred | 1<br><br>Premiums<br>Earned | 2<br><br>Claim<br>Payments | 3<br><br>Claim Adjustment<br>Expense Payments | 4<br><br>Percent<br>(Col. 3/2) | 5<br>Claim and Claim<br>Adjustment<br>Expense Payments<br>(Col. 2 + 3) | 6<br><br>Percent<br>(Col. 5/1) | 7<br><br>Claims<br>Unpaid | 8<br><br>Unpaid Claim<br>Adjustment<br>Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | 10<br><br>Percent<br>(Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2004.....   |                             |                            |   | .....0.0                       | .....0   | .....0.0                       |                           |   | .....0   | .....0.0                        |
| 2. 2005.....   |                             | .....(18)                  |   | .....0.0                       | .....(18)  | .....0.0                       |                           |   | .....(18)  | .....0.0                        |
| 3. 2006.....   |                             | .....3,851                 |   | .....0.0                       | .....3,851   | .....0.0                       |                           |   | .....3,851   | .....0.0                        |
| 4. 2007.....   | .....20,182                 | .....32,836                | .....814                                      | .....2.5                       | .....33,650  | .....166.7                     | .....20                   |   | .....33,670  | .....166.8                      |
| 5. 2008.....   | .....12,150                 | .....6,114                 | .....109                                      | .....1.8                       | .....6,223   | .....51.2                      | .....459                  |   | .....6,682   | .....55.0                       |

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Vision  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Vision  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Vision  
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Fed Emp Health  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Fed Emp Health  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Fed Emp Health  
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Medicare  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Medicare  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Medicare  
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Medicaid  
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Medicaid  
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Medicaid  
NONE**



UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

| Year in Which Losses<br>Were Incurred | Cumulative Net Amounts Paid |           |           |            |            |
|---------------------------------------|-----------------------------|-----------|-----------|------------|------------|
|                                       | 1<br>2004                   | 2<br>2005 | 3<br>2006 | 4<br>2007  | 5<br>2008  |
| 1. Prior.....                         |                             |           |           |            |            |
| 2. 2004.....                          |                             |           |           |            |            |
| 3. 2005.....                          | ..XXX.                      |           |           |            |            |
| 4. 2006.....                          | ..XXX.                      | ..XXX.    | .....528  | .....529   | .....529   |
| 5. 2007.....                          | ..XXX.                      | ..XXX.    | ..XXX.    | .....2,460 | .....2,894 |
| 6. 2008.....                          | ..XXX.                      | ..XXX.    | ..XXX.    | ..XXX.     | .....404   |

SECTION B - INCURRED HEALTH CLAIMS - OTHER

| Year in Which Losses<br>Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |            |            |
|---------------------------------------|--|-----------|-----------|------------|------------|
|                                       | 1<br>2004  | 2<br>2005 | 3<br>2006 | 4<br>2007  | 5<br>2008  |
| 1. Prior.....                         |  |           |           |            |            |
| 2. 2004.....                          |  |           |           |            |            |
| 3. 2005.....                          | ..XXX.   |           |           |            |            |
| 4. 2006.....                          | ..XXX.   | ..XXX.    | .....773  | .....529   | .....529   |
| 5. 2007.....                          | ..XXX.   | ..XXX.    | ..XXX.    | .....2,989 | .....2,908 |
| 6. 2008.....                          | ..XXX.   | ..XXX.    | ..XXX.    | ..XXX.     | .....750   |

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

| Years in Which<br>Premiums were Earned and<br>Claims were Incurred | 1<br><br>Premiums<br>Earned | 2<br><br>Claim<br>Payments | 3<br><br>Claim Adjustment<br>Expense Payments | 4<br><br>Percent<br>(Col. 3/2) | 5<br><br>Claim and Claim<br>Adjustment<br>Expense Payments<br>(Col. 2 + 3) | 6<br><br>Percent<br>(Col. 5/1) | 7<br><br>Claims<br>Unpaid | 8<br><br>Unpaid Claim<br>Adjustment<br>Expenses | 9<br><br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Col. 5 + 7 + 8) | 10<br><br>Percent<br>(Col. 9/1) |
|--|-----------------------------|----------------------------|---|--------------------------------|--|--------------------------------|---------------------------|---|--|---------------------------------|
| 1. 2004.....   |                             |                            |   | .....0.0                       | .....0   | .....0.0                       |                           |   | .....0   | .....0.0                        |
| 2. 2005.....   |                             |                            |   | .....0.0                       | .....0   | .....0.0                       |                           |   | .....0   | .....0.0                        |
| 3. 2006.....   | .....1,445                  | .....529                   | .....73                                       | .....13.8                      | .....602   | .....41.7                      |                           |   | .....602   | .....41.7                       |
| 4. 2007.....   | .....893                    | .....2,894                 | .....41                                       | .....1.4                       | .....2,935   | .....328.7                     | .....15                   |   | .....2,950   | .....330.3                      |
| 5. 2008.....   | .....980                    | .....404                   | .....20                                       | .....5.0                       | .....424   | .....43.3                      | .....346                  |   | .....770   | .....78.6                       |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

|  | 1       | 2  | 3                      | 4              | 5              | 6  | 7                          | 8                        | 9     |
|--|---------|--|------------------------|----------------|----------------|--|----------------------------|--------------------------|-------|
|  | Total   | Comprehensive<br>(Hospital<br>and Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefit Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other |
| POLICY RESERVE   |         |  |                        |                |                |  |                            |                          |       |
| 1. Unearned premium reserves.....  | 348,397 | 347,151                                    |                        |                |                |  |                            |                          | 1,246 |
| 2. Additional policy reserves (a).....   | 0       |  |                        |                |                |  |                            |                          |       |
| 3. Reserve for future contingent benefits.....   | 0       |  |                        |                |                |  |                            |                          |       |
| 4. Reserve for rate credits or experience rating refunds<br>(including \$.00) for investment income..... | 0       |  |                        |                |                |  |                            |                          |       |
| 5. Aggregate write-ins for other policy reserves.....  | 0       | 0  | 0                      | 0              | 0              | 0  | 0                          | 0                        | 0     |
| 6. Totals (gross).....   | 348,397 | 347,151                                    | 0                      | 0              | 0              | 0  | 0                          | 0                        | 1,246 |
| 7. Reinsurance ceded.....  | 0       |  |                        |                |                |  |                            |                          |       |
| 8. Totals (net) (Page 3, Line 4).....  | 348,397 | 347,151                                    | 0                      | 0              | 0              | 0  | 0                          | 0                        | 1,246 |
| CLAIM RESERVE  |         |  |                        |                |                |  |                            |                          |       |
| 9. Present value of amounts not yet due on claims.....   | 6,185   |  |                        |                |                |  |                            |                          | 6,185 |
| 10. Reserve for future contingent benefits.....  | 153,876 | 153,876                                    |                        |                |                |  |                            |                          |       |
| 11. Aggregate write-ins for other claim reserves.....  | 0       | 0  | 0                      | 0              | 0              | 0  | 0                          | 0                        | 0     |
| 12. Totals (gross).....  | 160,061 | 153,876                                    | 0                      | 0              | 0              | 0  | 0                          | 0                        | 6,185 |
| 13. Reinsurance ceded.....   | 0       |  |                        |                |                |  |                            |                          |       |
| 14. Totals (net) (Page 3, Line 7).....   | 160,061 | 153,876                                    | 0                      | 0              | 0              | 0  | 0                          | 0                        | 6,185 |
| DETAILS OF WRITE-INS   |         |  |                        |                |                |  |                            |                          |       |
| 0501. ....   | 0       |  |                        |                |                |  |                            |                          |       |
| 0502. ....   | 0       |  |                        |                |                |  |                            |                          |       |
| 0503. ....   | 0       |  |                        |                |                |  |                            |                          |       |
| 0598. Summary of remaining write-ins for Line 5 from overflow page.....                                  | 0       | 0  | 0                      | 0              | 0              | 0  | 0                          | 0                        | 0     |
| 0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....  | 0       | 0  | 0                      | 0              | 0              | 0  | 0                          | 0                        | 0     |
| 1101. ....   | 0       |  |                        |                |                |  |                            |                          |       |
| 1102. ....   | 0       |  |                        |                |                |  |                            |                          |       |
| 1103. ....   | 0       |  |                        |                |                |  |                            |                          |       |
| 1198. Summary of remaining write-ins for Line 11 from overflow page.....                                 | 0       | 0  | 0                      | 0              | 0              | 0  | 0                          | 0                        | 0     |
| 1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....                                       | 0       | 0  | 0                      | 0              | 0              | 0  | 0                          | 0                        | 0     |

(a) Includes \$.00 premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

|   | Claim Adjustment Expenses            |  | 3<br>General<br>Administrative<br>Expenses | 4<br>Investment<br>Expenses | 5<br>Total         |
|---|--------------------------------------|--|--|-----------------------------|--------------------|
|   | 1<br>Cost<br>Containment<br>Expenses | 2<br>Other Claim<br>Adjustment<br>Expenses |  |                             |                    |
| 1. Rent (\$.....0 for occupancy of own building).....                     | .....21,606                          | .....1,948                                 | .....72,126                                | .....                       | .....95,680        |
| 2. Salaries, wages and other benefits.....                                | .....966,119                         | .....1,032,788                             | .....3,355,701                             | .....                       | .....5,354,608     |
| 3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....           | .....                                | .....                                      | .....6,308,903                             | .....                       | .....6,308,903     |
| 4. Legal fees and expenses.....   | .....27                              | .....14                                    | .....15,523                                | .....                       | .....15,564        |
| 5. Certifications and accreditation fees.....                             | .....                                | .....                                      | .....                                      | .....                       | .....0             |
| 6. Auditing, actuarial and other consulting services.....                 | .....116,183                         | .....112,936                               | .....278,989                               | .....                       | .....508,108       |
| 7. Traveling expenses.....  | .....7,972                           | .....5,988                                 | .....132,496                               | .....                       | .....146,456       |
| 8. Marketing and advertising.....   | .....4,419                           | .....4,273                                 | .....326,539                               | .....                       | .....335,231       |
| 9. Postage, express and telephone.....                                    | .....93,315                          | .....100,389                               | .....292,248                               | .....                       | .....485,952       |
| 10. Printing and office supplies.....                                     | .....11,669                          | .....12,505                                | .....27,180                                | .....                       | .....51,354        |
| 11. Occupancy, depreciation and amortization.....                         | .....(13,658)                        | .....(19,494)                              | .....1,133,209                             | .....                       | .....1,100,057     |
| 12. Equipment.....  | .....2,941                           | .....1,463                                 | .....25,948                                | .....                       | .....30,352        |
| 13. Cost or depreciation of EDP equipment and software.....               | .....99,884                          | .....107,412                               | .....235,351                               | .....                       | .....442,647       |
| 14. Outsourced services including EDP, claims, and other services.....    | .....6,098                           | .....6,567                                 | .....4,412                                 | .....                       | .....17,077        |
| 15. Boards, bureaus and association fees.....                             | .....(11)                            | .....(103)                                 | .....9,391                                 | .....                       | .....9,277         |
| 16. Insurance, except on real estate.....                                 | .....(1,703)                         | .....(2,002)                               | .....139,212                               | .....                       | .....135,507       |
| 17. Collection and bank service charges.....                              | .....500                             | .....539                                   | .....931                                   | .....                       | .....1,970         |
| 18. Group service and administration fees.....                            | .....                                | .....                                      | .....                                      | .....                       | .....0             |
| 19. Reimbursements by uninsured plans.....                                | .....                                | .....                                      | .....(3,109,019)                           | .....                       | .....(3,109,019)   |
| 20. Reimbursements from fiscal intermediaries.....                        | .....                                | .....                                      | .....                                      | .....                       | .....0             |
| 21. Real estate expenses.....   | .....                                | .....                                      | .....                                      | .....                       | .....0             |
| 22. Real estate taxes.....  | .....                                | .....                                      | .....                                      | .....                       | .....0             |
| 23. Taxes, licenses and fees:   |                                      |  |  |                             |                    |
| 23.1 State and local insurance taxes.....                                 | .....                                | .....                                      | .....                                      | .....                       | .....0             |
| 23.2 State premium taxes.....   | .....                                | .....                                      | .....4,969,396                             | .....                       | .....4,969,396     |
| 23.3 Regulator authority licenses and fees.....                           | .....19                              | .....21                                    | .....67,460                                | .....                       | .....67,500        |
| 23.4 Payroll taxes.....   | .....70,981                          | .....76,015                                | .....206,349                               | .....                       | .....353,345       |
| 23.5 Other (excluding federal income and real estate taxes).....          | .....(2,699)                         | .....(2,906)                               | .....835,886                               | .....                       | .....830,281       |
| 24. Investment expenses not included elsewhere.....                       | .....                                | .....                                      | .....                                      | .....65,767                 | .....65,767        |
| 25. Aggregate write-ins for expenses.....                                 | .....73,149                          | .....78,692                                | .....2,265,916                             | .....0                      | .....2,417,757     |
| 26. Total expenses incurred (Lines 1 to 25).....                          | .....1,456,811                       | .....1,517,045                             | .....17,594,147                            | .....65,767                 | (a).....20,633,770 |
| 27. Less expenses unpaid December 31, current year.....                   | .....                                | .....255,657                               | .....835,890                               | .....                       | .....1,091,547     |
| 28. Add expenses unpaid December 31, prior year.....                      | .....                                | .....559,444                               | .....1,393,355                             | .....                       | .....1,952,799     |
| 29. Amounts receivable relating to uninsured plans, prior year.....       | .....                                | .....                                      | .....1,421,488                             | .....                       | .....1,421,488     |
| 30. Amounts receivable relating to uninsured plans, current year.....     | .....                                | .....                                      | .....532,240                               | .....                       | .....532,240       |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)..... | .....1,456,811                       | .....1,820,832                             | .....17,262,364                            | .....65,767                 | .....20,605,774    |

DETAILS OF WRITE-INS

|  |             |             |                |        |                |
|--|-------------|-------------|----------------|--------|----------------|
| 2501. Other Miscellaneous.....   | .....73,149 | .....78,692 | .....2,265,916 | .....  | .....2,417,757 |
| 2502. ....   | .....       | .....       | .....          | .....  | .....0         |
| 2503. ....   | .....       | .....       | .....          | .....  | .....0         |
| 2598. Summary of remaining write-ins for Line 25 from overflow page..... | .....0      | .....0      | .....0         | .....0 | .....0         |
| 2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....       | .....73,149 | .....78,692 | .....2,265,916 | .....0 | .....2,417,757 |

(a) Includes management fees of \$.....7,309,678 to affiliates and \$.....0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

|  | 1<br>Collected<br>During Year | 2<br>Earned<br>During Year |
|--|-------------------------------|----------------------------|
| 1. U.S. government bonds.....  | (a).....162,425               | .....160,003               |
| 1.1 Bonds exempt from U.S. tax.....  | (a).....                      | .....                      |
| 1.2 Other bonds (unaffiliated).....  | (a).....4,376,325             | .....4,450,840             |
| 1.3 Bonds of affiliates.....   | (a).....                      | .....                      |
| 2.1 Preferred stocks (unaffiliated).....                                     | (b).....                      | .....                      |
| 2.11 Preferred stocks of affiliates.....                                     | (b).....                      | .....                      |
| 2.2 Common stocks (unaffiliated).....  | .....                         | .....                      |
| 2.21 Common stocks of affiliates.....  | .....                         | .....                      |
| 3. Mortgage loans.....   | (c).....                      | .....                      |
| 4. Real estate.....  | (d).....                      | .....                      |
| 5. Contract loans.....   | .....                         | .....                      |
| 6. Cash, cash equivalents and short-term investments.....                    | (e).....270                   | .....270                   |
| 7. Derivative instruments.....   | (f).....2,380,430             | .....2,380,430             |
| 8. Other invested assets.....  | .....                         | .....                      |
| 9. Aggregate write-ins for investment income.....                            | .....0                        | .....0                     |
| 10. Total gross investment income.....                                       | .....6,919,450                | .....6,991,543             |
| 11. Investment expenses.....   | .....                         | (g).....65,767             |
| 12. Investment taxes, licenses and fees, excluding federal income taxes..... | .....                         | (g).....                   |
| 13. Interest expense.....  | .....                         | (h).....                   |
| 14. Depreciation on real estate and other invested assets.....               | .....                         | (i).....0                  |
| 15. Aggregate write-ins for deductions from investment income.....           | .....                         | .....6                     |
| 16. Total deductions (Lines 11 through 15).....                              | .....                         | .....65,773                |
| 17. Net investment income (Line 10 minus Line 16).....                       | .....                         | .....6,925,770             |

DETAILS OF WRITE-INS

|   |        |        |
|---|--------|--------|
| 0901. ....  | .....  | .....  |
| 0902. ....  | .....  | .....  |
| 0903. ....  | .....  | .....  |
| 0998. Summary of remaining write-ins for Line 9 from overflow page.....   | .....0 | .....0 |
| 0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....   | .....0 | .....0 |
| 1501. Miscellaneous Expense.....  | .....  | .....6 |
| 1502. ....  | .....  | .....  |
| 1503. ....  | .....  | .....  |
| 1598. Summary of remaining write-ins for Line 15 from overflow page.....  | .....  | .....0 |
| 1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....  | .....  | .....6 |
| (a) Includes \$.....127,152 accrual of discount less \$.....667,041 amortization of premium and less \$.....137,530 paid for accrued interest on purchases.                   | .....  | .....  |
| (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.                                    | .....  | .....  |
| (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.                                     | .....  | .....  |
| (d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.   | .....  | .....  |
| (e) Includes \$.....270 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.                                   | .....  | .....  |
| (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.  | .....  | .....  |
| (g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts. | .....  | .....  |
| (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.   | .....  | .....  |
| (i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.   | .....  | .....  |

EXHIBIT OF CAPITAL GAINS (LOSSES)

|   | 1<br>Realized<br>Gain (Loss)<br>on Sales<br>or Maturity | 2<br>Other<br>Realized<br>Adjustments | 3<br>Total Realized<br>Capital Gain (Loss)<br>(Columns 1 + 2) | 4<br>Change in<br>Unrealized<br>Capital Gain (Loss) | 5<br>Change in<br>Unrealized<br>Foreign Exchange<br>Capital Gain (Loss) |
|---|---|---------------------------------------|---|---|---|
| 1. U.S. government bonds.....                             | .....118,446  | .....                                 | .....118,446  | .....   | .....   |
| 1.1 Bonds exempt from U.S. tax.....                       | .....   | .....                                 | .....0  | .....   | .....   |
| 1.2 Other bonds (unaffiliated).....                       | .....(49,934)   | .....(1,046,461)                      | .....(1,096,395)  | .....(954)  | .....   |
| 1.3 Bonds of affiliates.....                              | .....   | .....                                 | .....0  | .....   | .....   |
| 2.1 Preferred stocks (unaffiliated).....                  | .....   | .....                                 | .....0  | .....   | .....   |
| 2.11 Preferred stocks of affiliates.....                  | .....   | .....                                 | .....0  | .....   | .....   |
| 2.2 Common stocks (unaffiliated).....                     | .....   | .....                                 | .....0  | .....   | .....   |
| 2.21 Common stocks of affiliates.....                     | .....   | .....                                 | .....0  | .....   | .....   |
| 3. Mortgage loans.....                                    | .....   | .....                                 | .....0  | .....   | .....   |
| 4. Real estate.....                                       | .....   | .....                                 | .....0  | .....   | .....   |
| 5. Contract loans.....                                    | .....   | .....                                 | .....0  | .....   | .....   |
| 6. Cash, cash equivalents and short-term investments..... | .....   | .....                                 | .....0  | .....   | .....   |
| 7. Derivative instruments.....                            | .....   | .....                                 | .....0  | .....   | .....   |
| 8. Other invested assets.....                             | .....   | .....                                 | .....0  | .....   | .....   |
| 9. Aggregate write-ins for capital gains (losses).....    | .....0  | .....0                                | .....0  | .....0  | .....0  |
| 10. Total capital gains (losses).....                     | .....68,512   | .....(1,046,461)                      | .....(977,949)  | .....(954)  | .....0  |

DETAILS OF WRITE-INS

|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| 0901. ....   | .....  | .....  | .....0 | .....  | .....  |
| 0902. ....   | .....  | .....  | .....0 | .....  | .....  |
| 0903. ....   | .....  | .....  | .....0 | .....  | .....  |
| 0998. Summary of remaining write-ins for Line 9 from overflow page.... | .....0 | .....0 | .....0 | .....0 | .....0 |
| 0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....      | .....0 | .....0 | .....0 | .....0 | .....0 |

EXHIBIT OF NONADMITTED ASSETS

|   | 1<br>Current Year<br>Total<br>Nonadmitted Assets | 2<br>Prior Year<br>Total<br>Nonadmitted Assets | 3<br>Change in Total<br>Nonadmitted Assets<br>(Col. 2 - Col. 1) |
|---|--|--|---|
| 1. Bonds (Schedule D).....  |  |  | 0   |
| 2. Stocks (Schedule D):   |  |  |   |
| 2.1 Preferred stocks.....   |  |  | 0   |
| 2.2 Common stocks.....  |  |  | 0   |
| 3. Mortgage loans on real estate (Schedule B):  |  |  |   |
| 3.1 First liens.....  |  |  | 0   |
| 3.2 Other than first liens.....   |  |  | 0   |
| 4. Real estate (Schedule A):  |  |  |   |
| 4.1 Properties occupied by the company.....   |  |  | 0   |
| 4.2 Properties held for the production of income.....   |  |  | 0   |
| 4.3 Properties held for sale.....   |  |  | 0   |
| 5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2)<br>and short-term investments (Schedule DA).....          |  |  | 0   |
| 6. Contract loans.....  |  |  | 0   |
| 7. Other invested assets (Schedule BA).....   |  |  | 0   |
| 8. Receivables for securities.....  |  |  | 0   |
| 9. Aggregate write-ins for invested assets.....   | 0  | 0  | 0   |
| 10. Subtotals, cash and invested assets (Lines 1 to 9).....   | 0  | 0  | 0   |
| 11. Title plants (for Title insurers only).....   |  |  | 0   |
| 12. Investment income due and accrued.....  |  |  | 0   |
| 13. Premiums and considerations:  |  |  |   |
| 13.1 Uncollected premiums and agents' balances in the course of collection.....   | 275,933  | 952,133  | 676,200   |
| 13.2 Deferred premiums, agents' balances and installments booked but<br>deferred and not yet due.....                       |  |  | 0   |
| 13.3 Accrued retrospective premiums.....  |  |  | 0   |
| 14. Reinsurance:  |  |  |   |
| 14.1 Amounts recoverable from reinsurers.....   |  |  | 0   |
| 14.2 Funds held by or deposited with reinsured companies.....   |  |  | 0   |
| 14.3 Other amounts receivable under reinsurance contracts.....  |  |  | 0   |
| 15. Amounts receivable relating to uninsured plans.....   |  |  | 0   |
| 16.1 Current federal and foreign income tax recoverable and interest thereon.....   |  |  | 0   |
| 16.2 Net deferred tax asset.....  | 358,165  | 253,332  | (104,833)   |
| 17. Guaranty funds receivable or on deposit.....  |  |  | 0   |
| 18. Electronic data processing equipment and software.....  |  |  | 0   |
| 19. Furniture and equipment, including health care delivery assets.....   |  |  | 0   |
| 20. Net adjustment in assets and liabilities due to foreign exchange rates.....   |  |  | 0   |
| 21. Receivables from parent, subsidiaries and affiliates.....   |  | 3,161,437                                      | 3,161,437   |
| 22. Health care and other amounts receivable.....   | 1,094,371  | 1,950,123                                      | 855,752   |
| 23. Aggregate write-ins for other than invested assets.....   | 506,415  | 421,440  | (84,975)  |
| 24. Total assets excluding Separate Accounts, Segregated Accounts and Protected<br>Cell Accounts (Lines 10 through 23)..... | 2,234,884  | 6,738,465                                      | 4,503,581   |
| 25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....  |  |  | 0   |
| 26. TOTALS (Lines 24 and 25).....   | 2,234,884  | 6,738,465                                      | 4,503,581   |

DETAILS OF WRITE-INS

|  |         |         |          |
|--|---------|---------|----------|
| 0901.....  |         |         | 0        |
| 0902.....  |         |         | 0        |
| 0903.....  |         |         | 0        |
| 0998. Summary of remaining write-ins for Line 9 from overflow page.....  | 0       | 0       | 0        |
| 0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....        | 0       | 0       | 0        |
| 2301. Prepays.....   | 348,265 | 263,289 | (84,976) |
| 2302. Goodwill.....  | 158,150 | 158,151 | 1        |
| 2303. Nonadmitted assets specific to Fidelity Insurance Company.....     |         |         | 0        |
| 2398. Summary of remaining write-ins for Line 23 from overflow page..... | 0       | 0       | 0        |
| 2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....       | 506,415 | 421,440 | (84,975) |

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment                                    | Total Members at End of |                       |                        |                       |                      | 6<br>Current Year<br>Member<br>Months |
|---|-------------------------|-----------------------|------------------------|-----------------------|----------------------|---------------------------------------|
|   | 1<br>Prior<br>Year      | 2<br>First<br>Quarter | 3<br>Second<br>Quarter | 4<br>Third<br>Quarter | 5<br>Current<br>Year |                                       |
| 1. Health maintenance organizations.....                | 77,766                  | 68,581                | 67,071                 | 62,630                | 61,112               | 862,054                               |
| 2. Provider service organizations.....                  |                         |                       |                        |                       |                      |                                       |
| 3. Preferred provider organizations.....                | 63,422                  | 51,472                | 45,684                 | 38,190                | 33,588               | 526,863                               |
| 4. Point of service.....                                |                         |                       |                        |                       |                      |                                       |
| 5. Indemnity only.....                                  | 845                     | 840                   | 791                    | 763                   | 749                  | 9,391                                 |
| 6. Aggregate write-ins for other lines of business..... | 0                       | 0                     | 0                      | 0                     | 0                    | 0                                     |
| 7. Total.....   | 142,033                 | 120,893               | 113,546                | 101,583               | 95,449               | 1,398,308                             |

DETAILS OF WRITE-INS

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| 0601. ....  |   |   |   |   |   |   |
| 0602. ....  |   |   |   |   |   |   |
| 0603. ....  |   |   |   |   |   |   |
| 0698. Summary of remaining write-ins for Line 6 from overflow page..... | 0 | 0 | 0 | 0 | 0 | 0 |
| 0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....       | 0 | 0 | 0 | 0 | 0 | 0 |

## NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Operation**—MAMSI Life and Health Insurance Company (MLH or the “Company”), is a wholly owned subsidiary of Mid Atlantic Medical Services, LLC (MAMSI), a wholly owned subsidiary of UnitedHealth Group Incorporated (UnitedHealth Group). MLH, which is domiciled in the state of Maryland, is licensed to do business as a life, accident, and health insurance company in 31 states and the District of Columbia. The Company’s principal operating area is in the states of Delaware, Maryland, Virginia, West Virginia, and the District of Columbia. The Company was incorporated on September 12, 1955, by the Maryland Insurance Administration (MIA).

MLH currently underwrites the indemnity coverage of its affiliated health maintenance organizations (HMO) point-of-service plans in addition to offering stand-alone indemnity (including PPO) health and dental insurance, aggregate and specific stop-loss insurance for self-insured groups, and group life, accidental death, and short-term disability policies. Under the MLH indemnity plan, enrollees may receive health care services from a physician, health care practitioner, or facility of their choice. Enrollees in the MLH PPO plan are encouraged to receive health care services from a preferred physician, health care practitioner, or facility, but may receive these services from any physician, health care practitioner, or facility. In addition, MLH provides an administrative services contracts (ASC) product to the state of Maryland employees. ASC business consists of allowing access to UnitedHealth Networks’ (UHN) network of physicians and health care practitioners and the processing and payment of claims. The Company has no insurance risk on this product.

Effective December 31, 2006, Fidelity Insurance Company (FIC) was merged into MLH. Previously, these entities were wholly owned subsidiaries of Fidelity Insurance Group and MAMSI, respectively, both of which are wholly owned subsidiaries of UnitedHealth Group. The name of the surviving company is MAMSI Life and Health Insurance Company. The transaction was recorded in accordance with the statutory merger method outlined in Statement of Statutory Accounting Principles (SSAP) No. 68, *Business Combinations and Goodwill*. As a result of the statutory merger, 256,200 issued and outstanding shares of \$6 par value common stock were exchanged for the equity of FIC, which was subsequently canceled and converted into paid-in surplus of the surviving company for reporting purposes.

**Basis of Presentation** — The Company prepares its financial statements on the basis of accounting practices prescribed or permitted by the MIA. These practices differ from accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) as certain assets, including certain aged premium and health care receivables, are considered nonadmitted assets for statutory purposes and are excluded from the statutory basis statements of admitted assets, liabilities, and capital and surplus. The change in nonadmitted assets has been reflected in accumulated surplus in the accompanying statutory basis financial statements. Under generally accepted accounting principles, these amounts would be included in total assets on the balance sheet. In addition, certain debt investments that would be shown at market value under generally accepted accounting principles are presented at amortized cost in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

The MIA recognizes only statutory accounting practices prescribed or permitted by the state of Maryland for determining and reporting the financial condition and results of operations of an HMO and for determining its solvency under Maryland insurance law. The National Association of Insurance Commissioners’ (NAIC) Accounting Practices and Procedures manual (NAIC SAP) has been adopted with modifications as a component of prescribed or permitted practices by the state of Maryland. No significant differences exist between the statutory practices prescribed or permitted by the state of Maryland and those prescribed or permitted by the NAIC SAP which would materially affect the statutory basis capital and surplus.

Maryland has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, hospital advances of approximately \$5,047,000 and \$6,260,000 at December 31, 2008 and 2007 respectively, are considered to be admitted assets.

A reconciliation of MLH’s capital and surplus between practices prescribed by the state of Maryland and NAIC SAP as of December 31, 2007 and 2006, is shown below (in thousands):

|  | 2008              | 2007              |
|--|-------------------|-------------------|
| Capital and surplus—MIA                        | \$ 168,191        | \$ 143,516        |
| Maryland Prescribed Practice—hospital advances | <u>(5,047)</u>    | <u>(6,260)</u>    |
| Capital and surplus—NAIC SAP                   | <u>\$ 163,144</u> | <u>\$ 137,256</u> |

The statutory practices prescribed or permitted by the state of Maryland that differ from those found in NAIC SAP did not affect net income.

**Use of Estimates** — These statutory basis financial statements include certain amounts that are based on the Company’s estimates and judgments. These estimates require the Company to apply complex assumptions and judgments, often because the Company must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to total hospital and medical expenses and claims unpaid. The Company adjusts these estimates each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of income in the period in which the estimate is adjusted.

**Cash, Cash Equivalents and Short-term Investments** — Cash, cash equivalents and short-term investments represent cash held by the Company in disbursement accounts, money market instruments, commercial paper, and bonds with a maturity of one year or less at the time of purchase. Claims and other payments are made from the disbursement accounts daily. Cash equivalents are reported at cost or amortized cost depending on the nature of the underlying security, which approximates market value. Cash overdrafts are a result of timing differences in funding disbursement accounts for claims payments.

**Bonds and Short-term Investments** — Bonds and short-term investments include money market funds, commercial paper, corporate bonds, government obligations, municipal securities and are stated at amortized cost if they meet NAIC designation of one or two and are stated at the lower of amortized cost or market value if they meet an NAIC designation of three or higher. Amortization of bond premium or discount is calculated using the constant-yield interest method. Bonds and short-term investments are valued and reported using market prices published by the NAIC Securities Valuation Office (“SVO”) in accordance with the NAIC Valuations of Securities manual prepared by the SVO or external pricing service if NAIC values are not available.

Corporate bonds and government obligations include mortgage-backed securities, which are valued using the retrospective adjustment methodology. Prepayment assumptions for the determination of the amortized cost of mortgage-backed securities are based on a three-month constant prepayment rate history. The Company’s investment policy limits investments in non-agency residential mortgage-backed securities, including home equity and subprime mortgages to 10% of total cash and invested assets and total investments in mortgage-backed securities to 30% of total cash and invested assets. As of December 31, 2008, these investment holdings have NAIC credit ratings of one and two.

The Company continually monitors the difference between the cost and estimated fair value of its invested assets. If any of the Company’s investments experience a decline in value that the Company believes is other than temporary, the Company records a realized loss in net realized capital gains or (losses) less capital gains tax in the statutory basis statement of operations. The new cost basis is not changed for subsequent recoveries in fair value. The prospective adjustment method is utilized for mortgage-backed securities for periods subsequent to the loss recognition. Losses relating to this were incurred for the year ended December 31, 2008 totaling \$1,046,000. There were no losses of this nature for the year ended December 31, 2007.

**Life, Accident and Health Expenses and Payables**—Life, accident, and health services expenses include claims paid, claims processed but not yet paid, estimates for claims received but not yet processed, and estimates for the costs of health care services enrollees have received, but for which claims have not yet been submitted.



The estimates for incurred but not yet reported claims are developed using actuarial methods based upon historical submission and payment data, cost trends, customer and product mix, seasonality, utilization of health care services, contracted service rates, and other relevant factors. The estimates may change as actuarial methods change or as underlying facts upon which estimates are based change. The Company did not change actuarial methods during the years ended December 31, 2008 and 2007. Management believes the amount of reserves are adequate to cover the Company's liability for unpaid claims as of December 31, 2008; however, actual claim payments may differ from those established estimates. Adjustments to reserves are reflected in operating results in the period in which the change in estimates is identified.

***Life and Health Reserves***—Life reserves consist of unearned premiums on life insurance and policy reserves developed by actuarial methods based on published tables using statutorily specific interest rates and valuation methods that will provide, in the aggregate, reserves that are greater than or equal to the minimum required by the MIA.

***Refundable Advances to Hospitals***—The Company has advances on deposit with certain hospitals in the state of Maryland. These advances permit the Company to earn differentials on inpatient and outpatient charges by these hospitals. These advances are reported at their realizable value in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

***Income Taxes*** — Statutory accounting requires an amount to be recorded for deferred taxes on temporary differences between the financial reporting and tax bases of assets and liabilities, subject to limitations on deferred tax assets. The Company's operations are included in the consolidated federal income tax return of UnitedHealth Group. Federal income taxes are paid to or refunded by UnitedHealth Group pursuant to the terms of a tax-sharing agreement, approved by the Board of Directors, under which taxes approximate the amount that would have been computed on a separate company basis. Income taxes incurred in the current and prior years will be available for recoupment by the Company only in the event of future net losses of consolidated UnitedHealth Group. The Company receives a benefit at the federal rate in the current year for net losses incurred in that year to the extent losses can be utilized in the consolidated federal income tax return of UnitedHealth Group (see Note 9). UnitedHealth Group currently files income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. The U.S. Internal Revenue Service (IRS) has completed exams on UnitedHealth Group's consolidated income tax returns for fiscal years 2007 and prior. UnitedHealth Group's 2008 tax return is under advance review by the IRS under its Compliance Assurance Program (CAP). With the exception of a few states, UnitedHealth Group is no longer subject to income tax examinations prior to 2002 in major state and foreign jurisdictions. The Company does not believe any adjustments that may result from these examinations will be material to the Company.

***Claims Adjustment Expense*** — Claims adjustment expenses (CAE) as defined by Statement of Statutory Accounting Principles (SSAP) No. 85, *Claim Adjustment Expenses, Amendments to SSAP No. 55 — Unpaid Claims, Losses, and Loss Adjustment Expenses*, are those costs expected to be incurred in connection with the adjustment and recording of accident and health claims. Pursuant to the terms of the management agreement (see Note 10), the Company pays a management fee to UHS in exchange for administrative and management services. A detailed review of UHS' and the Company's administrative expenses is performed to determine the allocation between CAE and general administrative expenses in accordance with SSAP No. 85. It is the responsibility of UHS to pay claims adjustment expenses in the event the Company ceases operations. The Company has recorded an estimate of unpaid claims adjustment expenses associated with health services incurred but unpaid claims. Management believes the amount of the liability for unpaid claims adjustment expenses as of December 31, 2008 and 2007, is adequate to cover the Company's cost for the adjustment and recording of unpaid claims, however, actual expenses may differ immaterially from those established estimates. The method used for determining CAE is periodically reviewed and updated, and any adjustments are reflected in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus and the statutory basis statements of operations in the period in which the change in methodology is identified.

***Premiums*** — Net premium income is recognized in the period in which enrollees are entitled to receive health care services. Premiums received prior to the period of service are

recorded as premiums received in advance in the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus.

Administrative fee revenues are recognized in the period in which the related services are performed based upon the fee charged to the customer for Administrative Services Only (ASO) contracts, for which the employer retains all health care service risk, while the Company assumes administrative risk. Administrative fee revenue is netted against general administrative expenses in the statutory basis statements of operations

**Health Care Receivables** — Health care receivables consist of pharmacy rebate receivables estimated based on the most currently available data from the Company's claims processing systems and from data provided by the Company's unaffiliated pharmaceutical benefit manager. Pharmacy rebate receivables are considered nonadmitted assets for statutory purposes if they do not meet the criteria established in SSAP No. 84, *Certain Health Care Receivables and Receivables Under Government Insured Plans*. Accordingly, the Company has excluded receivables that do not meet the SSAP No. 84 criteria from the statutory basis statements of admitted assets, liabilities, and capital and surplus

**Premium Deficiency Reserve** — Premium deficiency reserves and the related expense, as defined by SSAP No. 54, *Individual and Group Accident Health Contracts*, as well as actuarial practice guidelines, are recognized when it is probable that expected future health care expenses, claim adjustment expenses, and administration costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries considered over the remaining lives of the contracts. The methods for making such estimates and for establishing the resulting reserves are periodically reviewed and updated, and any adjustments are reflected in increase (decrease) in reserves for life and accident and health contracts in the accompanying statutory basis statements of operations in the period in which the change in estimate is identified. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 54 (see Note 29).

**Vulnerability Due to Certain Concentrations** — The Company is subject to substantial federal and state government regulation, including licensing and other requirements relating to the offering of the Company's existing products in new markets and offerings of new products, both of which may restrict the Company's ability to expand its business.

The Company has one customer that accounted for approximately 53.7% and 16.9% of uncollected premiums as of December 31, 2008 and 2007, respectively.

**Treasury Stock**—Shares of common stock that have been repurchased by the Company are recorded at cost as treasury stock, which reduces statutory capital and surplus. Treasury stock is held for either reissuance or cancellation in the future and has no effect on either the number of shares issued or the amount of common stock paid-in surplus.

**Reclassifications** — Certain 2007 amounts in the accompanying statutory basis financial statements have been reclassified to conform to the 2008 presentation. Specifically, the 2007 statements have been reclassified to be consistent with the Company's annual statement presentation. Items that are less than five percent of total admitted assets or total liabilities and surplus, respectively, have been aggregated in the statutory basis financial statements and are noted as Other assets or Other liabilities. These reclassifications had no effect on statutory basis net income or total statutory basis capital and surplus as previously reported.

**Restricted Cash Reserves** —The Company is required by the laws of the states in which it is licensed to do business to maintain regulatory deposits. These restricted cash reserves consist principally of government obligations and are stated at amortized cost, which approximates market value. At December 31, 2008 the deposits for the benefit of all policy holders was approximately \$1,576,000 and all other special deposits were approximately \$1,201,000. These reserves are included in bonds in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus, but are not available for working capital purposes. Interest earned on these reserves accrues to the Company.

**Minimum Capital and Surplus** — Under the laws of the state of Maryland, each HMO licensed in the state must maintain a minimum net worth that is equal to its total liabilities, plus the greater of \$750,000 or 5% of the subscription charges earned during the prior year; however, an HMO shall not be required to maintain a minimum net worth in excess of \$3,000,000. The Company has approximately \$168,191,000 in capital and surplus, which is in compliance with the required amount as of December 31, 2008.

Risk-based capital (RBC) is a regulatory tool for measuring the minimum amount of capital appropriate for a managed care organization to support its overall business operations in consideration of its size and risk profile. The Company is in compliance with the required amount as of December 31, 2008.

**Recently Issued Accounting Standards** —In September 2006, the Financial Accounting Standards Board (FAS) issued SFAS No. 157, “Fair Value Measurements,” (FAS 157). FAS 157 establishes a framework for measuring fair value. FAS 157 does not require new fair value measurements, but does require expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions to measure fair value, and the effect of fair value measures on earnings. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. GAAP pronouncements do not become part of Statutory Accounting Principles until and unless adopted by the NAIC. FAS 157 is currently being considered by the NAIC. Upon adoption, the Company will evaluate the impact of FAS 157 on its statutory basis financial statements.

In January 2009, the NAIC issued SSAP No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an, Amendment to SSAP No. 43 —Loan-backed and Structured Securities (SSAP 98)*. SSAP 98 establishes statutory accounting principles for impairment analysis and subsequent valuation of loan-backed and structured securities. This statement is effective for quarterly and annual reporting periods beginning on or after January 1, 2009, with early adoption permitted and encouraged. A change resulting from the adoption of this statement shall be accounted for prospectively. No cumulative effect adjustments or application of the new guidance to prior events or periods are required, similar to a change in accounting estimate. The Company adopted SSAP 98 as of December 31, 2008. The Company has assessed the impact of SSAP 98 on its financial condition, results of operations and cash flows and has determined the result was not material to the statutory basis financial statements. As of December 31, 2008, the impact of valuation adjustments are included in capital gains and losses totaling \$1,046,000.

## **2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS**

No changes in accounting principles have been recorded during the year ended December 31, 2008.

During 2008, the Company determined that it had overstated general administrative of approximately \$832,000, \$182,000 and \$32,000 for the years ended December 31, 2007, 2006 and 2005, respectively. In addition, the federal income tax provision was understated by approximately \$366,064 for the year ended December 31, 2007, 2006 and 2005. The cumulative effect of this prior year error was corrected by the Company in accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, and is reflected in the accompanying statutory basis statements of changes in capital and surplus for the year ended December 31, 2008.

## **3. BUSINESS COMBINATIONS AND GOODWILL**

The Company was not party to a business combination during the years ended December 31, 2008 and 2007 and does not carry goodwill on its statutory basis statements of admitted assets, liabilities and capital and surplus.

## **4. DISCONTINUED OPERATIONS**

The Company did not discontinue any operations during the years ended December 31, 2008 and 2007.

5. INVESTMENTS

The Company has no mortgage loans, restructured debt, reverse mortgages, repurchase agreements, or investments in low-income housing tax credits.

For purposes of calculating gross realized gains and losses on sales of investments, the amortized cost of each investment sold is used. The gross realized loss on sales of investments totaled approximately \$978,000 for the year ended December 31, 2008. At December 31, 2007 the Company had a gross realized gain of \$89,000. The net realized gain or loss is included in net realized capital gains or (losses) less capital gains tax in the accompanying statutory basis statements of operations.

As of December 31, 2008 and 2007, the amortized cost, fair value, and gross unrealized holding gains and losses of the Company’s investments, excluding cash overdrafts of approximately \$3,798,000 and \$8,836,000, respectively, are as follows (in thousands):

|                                 | 2008       |                  |                  |                  |            |
|---------------------------------|------------|------------------|------------------|------------------|------------|
|                                 |            | Gross Unrealized | Gross Unrealized | Gross Unrealized |            |
|                                 | Amortized  | Holding          | Holding Losses   | Holding Losses   | Fair       |
|                                 | Cost       | Gains            | < 1 year         | > 1 year         | Value      |
| U.S. government and agency      | \$ 22,202  | \$ 908           | \$ -             | \$ -             | \$ 23,110  |
| State and state agency          | 27,878     | 631              | (315)            | (120)            | 28,074     |
| Municipalities and local agency | 25,380     | 598              | (121)            | (112)            | 25,745     |
| Corporate bonds                 | 30,133     | 321              | (1,377)          | (886)            | 28,191     |
| Commercial paper                | 80,589     | -                | -                | -                | 80,589     |
| Total                           | \$ 186,182 | \$ 2,458         | \$ (1,813)       | \$ (1,118)       | \$ 185,709 |
|                                 | 2008       |                  |                  |                  |            |
|                                 |            | Gross Unrealized | Gross Unrealized | Gross Unrealized |            |
|                                 | Amortized  | Holding          | Holding Losses   | Holding Losses   | Fair       |
|                                 | Cost       | Gains            | < 1 year         | > 1 year         | Value      |
| Less than one year              | \$ 82,188  | \$ 8             | \$ -             | \$ -             | \$ 82,196  |
| One to five years               | 38,073     | 1,283            | (254)            | (90)             | 39,012     |
| Five to ten years               | 34,084     | 627              | (685)            | (242)            | 33,784     |
| Over ten years                  | 31,837     | 540              | (874)            | (786)            | 30,717     |
| Total                           | \$ 186,182 | \$ 2,458         | \$ (1,813)       | \$ (1,118)       | \$ 185,709 |
|                                 | 2007       |                  |                  |                  |            |
|                                 |            | Gross Unrealized | Gross Unrealized | Gross Unrealized |            |
|                                 | Amortized  | Holding          | Holding Losses   | Holding Losses   | Fair       |
|                                 | Cost       | Gains            | < 1 year         | > 1 year         | Value      |
| U.S. government and agency      | \$ 22,874  | \$ 409           | \$ -             | \$ (33)          | \$ 23,250  |
| State and state agency          | 24,700     | 281              | (45)             | (23)             | 24,913     |
| Municipalities and local agency | 26,798     | 188              | (10)             | (55)             | 26,922     |
| Corporate bonds                 | 28,019     | 142              | (115)            | (271)            | 27,776     |
| Commercial paper                | 61,773     | -                | -                | -                | 61,773     |
| Total                           | \$ 164,164 | \$ 1,020         | \$ (169)         | \$ (381)         | \$ 164,633 |

Included in U.S. government and agency securities and corporate bonds in the tables are mortgage-backed securities which do not have a single maturity date. For the 2008 years to maturity table above, these securities have been presented in the maturity group based on the securities’ final maturity date and at an amortized cost of approximately \$26,997,000 and fair value of approximately \$25,869,000.

The tables above show the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position.

The unrealized losses on investments in U.S. government and agency obligations, municipalities and local agency obligations, and corporate obligations at December 31, 2008 and 2007, were mainly caused by interest rate increases and not unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for each of the securities whereby the fair value of the investment is less than its amortized cost. The contractual cash flows of the U.S. government and agency

obligations are either guaranteed by the U.S. government or an agency of the U.S. government. It is expected that the securities would not be settled at a price less than the cost of the investment, as the Company has the ability to hold, and does not intend to sell the investment until the unrealized loss is fully recovered. The Company evaluated the credit ratings of the municipalities and local agency obligations and corporate obligations, noting whether a significant deterioration since purchase or other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and our intent and ability to hold the investment for a sufficient time in order to enable recovery of our cost. As a result of this review, the Company recorded other-than-temporary impairments of \$1,046,000 as of December 31, 2008, which is included in net realized capital gains or (losses) less capital gains tax in the statutory basis statements of operations.

FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical assets in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the asset (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

Fair values of short-term investments and bonds are based on quoted market prices, where applicable. The Company obtains one price for each security primarily from the NAIC SVO or an independent pricing service, which generally uses Level 1 or Level 2 inputs for the determination of fair value in accordance with FAS 157. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. As the Company is responsible for the determination of fair value, it performs quarterly analysis on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. As a result of these reviews, the Company has not historically adjusted the prices obtained from the pricing service.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the assets.

The following table presents information about the fair value of the Company’s financial assets at December 31, 2008, according to the valuation techniques the Company used to determine their fair values.

|                                 | 2008             |  |                   |              |  |                   |
|---------------------------------|------------------|--|-------------------|--------------|--|-------------------|
|                                 | Quoted Prices    |  | Other             |              |  |                   |
|                                 | in Active        |  | Observable        | Unobservable |  | Total             |
|                                 | Markets          |  | Inputs            | Inputs       |  | Fair              |
| (in thousands)                  | (Level 1)        |  | (Level 2)         | (Level 3)    |  | Value             |
| U.S. government and agency      | \$ 4,206         |  | \$ 18,905         | \$ -         |  | \$ 23,111         |
| State and state agency          | -                |  | 28,074            | -            |  | 28,074            |
| Municipalities and local agency | -                |  | 25,744            | -            |  | 25,744            |
| Corporate bonds                 | -                |  | 28,191            | -            |  | 28,191            |
| Commercial paper                | <u>80,589</u>    |  | <u>-</u>          | <u>-</u>     |  | <u>80,589</u>     |
| Total                           | <u>\$ 84,795</u> |  | <u>\$ 100,914</u> | <u>\$ -</u>  |  | <u>\$ 185,709</u> |
|                                 |                  |  |                   |              |  |                   |
|                                 |                  |  |                   |              |  |                   |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

The estimated fair values of short-term investments and bonds (investments) are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of investments that do not trade on a regular basis in active markets are classified as Level 2.

6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES

The Company has no investments in joint ventures, partnerships, or limited liability companies.

7. INVESTMENT INCOME

The Company has admitted all investment income due and accrued in the statutory basis statements of admitted assets, liabilities, and capital and surplus.

8. DERIVATIVE INSTRUMENTS

The Company has no derivative instruments.

9. INCOME TAXES

The federal income taxes incurred for the years ended December 31, are as follows (in thousands):

|  | 2008             | 2007             |
|--|------------------|------------------|
| Total current federal income tax provision | <u>\$ 17,869</u> | <u>\$ 24,617</u> |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, are as follows (in thousands):

|                                 | 2008          | 2007            | Change            |
|---------------------------------|---------------|-----------------|-------------------|
| Deferred tax assets:            |               |                 |                   |
| Claims unpaid and CAE           | \$ 148        | \$ 271          | \$ (123)          |
| Premiums received in advance    | 190           | 407             | (217)             |
| Investments                     | 338           | 0               | 338               |
| Nonadmitted assets              | 514           | 2,062           | (1,548)           |
| Net operating loss carryforward | 316           | 369             | (53)              |
| Deferred acquisition costs      | <u>66</u>     | <u>67</u>       | <u>(1)</u>        |
|                                 |               |                 |                   |
| Total deferred tax assets       | 1,572         | 3,176           | (1,604)           |
|                                 |               |                 |                   |
| Nonadmitted deferred tax assets | <u>358</u>    | <u>253</u>      | <u>105</u>        |
|                                 |               |                 |                   |
| Admitted deferred tax assets    | <u>1,214</u>  | <u>2,923</u>    | <u>(1,709)</u>    |
|                                 |               |                 |                   |
| Deferred tax liabilities:       |               |                 |                   |
| Bond market discount            | 20            | 16              | 4                 |
| Other                           | <u>266</u>    | <u>138</u>      | <u>128</u>        |
|                                 |               |                 |                   |
| Total deferred tax liabilities  | <u>286</u>    | <u>154</u>      | <u>132</u>        |
|                                 |               |                 |                   |
| Net deferred tax asset          | <u>\$ 928</u> | <u>\$ 2,769</u> | <u>\$ (1,841)</u> |

There are no unrecognized deferred tax liabilities.

The change in net deferred income tax for the years ended December 31, is comprised of the following (in thousands):

|   | 2008              | 2007          |
|---|-------------------|---------------|
| Change in deferred tax assets           | \$ (1,604)        | \$ 163        |
| Change in deferred tax liabilities      | <u>(132)</u>      | <u>148</u>    |
|   |                   |               |
| Net deferred tax asset                  | (1,736)           | 311           |
|   |                   |               |
| Tax effect on unrealized gains (losses) | <u>(1)</u>        | <u>0</u>      |
|   |                   |               |
| Change in net deferred income tax       | <u>\$ (1,737)</u> | <u>\$ 311</u> |

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate of 35% to net income before federal income taxes. The significant items causing this difference are as follows (in thousands):

|   | 2008             | 2007             |
|---|------------------|------------------|
| Tax provision at the federal statutory rate | \$18,719         | \$25,295         |
| Tax-exempt interest                         | (574)            | (588)            |
| Tax effect of nonadmitted assets            | 1,495            | (247)            |
| Proration                                   | 0                | 88               |
| Prior year true up                          | 0                | 372              |
| Tax effect of other                         | 0                | 8                |
|   |                  |                  |
| Total                                       | <u>\$ 19,640</u> | <u>\$ 24,928</u> |
|   |                  |                  |
| Current federal income tax provision        | \$17,869         | \$24,617         |
| Change in net deferred income tax           | 1,737            | 311              |
| Tax on capital gains (losses)               | 34               | 0                |
|   |                  |                  |
| Total statutory income taxes                | <u>\$ 19,640</u> | <u>\$ 24,928</u> |

At December 31, 2008 the Company had \$901,000 net operating losses expiring through the year 2014.

Federal income taxes recoverable of \$995,000 and federal income taxes payable of \$8,845,000 as of December 31, 2008 and 2007, respectively are included in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Federal income taxes paid, net of refunds was \$28,108,000 and \$23,122,000 in 2008 and 2007, respectively.

Federal income taxes incurred of \$18,302,000 and \$28,954,000 for 2008 and 2007, respectively, is available for recoupment in the event of future net losses.

## **10. INFORMATION CONCERNING PARENT, SUBSIDIARIES, AND AFFILIATES**

MAMSI provides administrative services to the Company including claims processing accounting, operations, and general management. Under a service agreement entered into by the Company, MLH remits to MAMSI amounts approximating the cost of rendering these services plus profit. Accordingly, the Company incurred charges from MAMSI of \$7,310,000 and \$11,467,000 in 2008 and 2007, respectively, which includes administrative expenses related to uninsured plans (see Note 18). These amounts are reported as general administrative expenses in the accompanying statutory statements of operations. Any unsatisfied amounts related to this arrangement are included in the receivables or amount due to parent, subsidiaries and affiliates in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus. Operations of the Company may not be indicative of those that would have occurred if it had operated as an independent company.

MAMSI Insurance Resources, Inc. (MIRI), a wholly owned subsidiary of OneNet PPO, LLC performs all marketing functions for the Company except in North Carolina and South Carolina. Under a service agreement entered into by the Company, MLH remits to MIRI amounts approximating the cost of rendering these services plus profit. Accordingly, MLH incurred charges from MIRI of \$2,001,000 and \$3,115,000, in 2008 and 2007, respectively. These amounts are reported as general and administrative expenses in the accompanying statutory statements of operations. Any unsatisfied amounts related to this arrangement are included in the related party accounts in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

The Company also has an agreement with OneNet PPO, LLC to provide professional services. MLH remits to OneNet PPO, LLC amounts approximating the cost of rendering these services plus profit. Fees related to this agreement, which are calculated on a per-member-per-month basis, of approximately \$411,000 in 2008, are included in general and administrative expenses in the accompanying statutory statements of operations.

MD-Individual Practice Association, Inc. (MD-IPA) processes, through an intercompany service agreement with MAMSI, certain premium invoices and collects the related remittances on behalf of MLH. In addition, MD-IPA through MAMSI, pays certain health related claims for MLH. Both premiums and claims applicable to MLH are settled through the receivables from parent, subsidiaries and affiliates in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

Optimum Choice, Inc. (OCI) processes, through an intercompany service agreement with MAMSI, certain premium invoices and collects the related remittances on behalf of MLH. In addition, OCI through MAMSI, pays certain health related claims for MLH. Both premiums and claims applicable to MLH are settled through the receivables from parent, subsidiaries and affiliates in the accompanying statutory statements of admitted assets, liabilities, and capital and surplus.

MLH contracts with ACN Group, Inc., a wholly owned subsidiary of UnitedHealth Group, to provide chiropractic services to its enrollees. Fees related to this agreement, which are calculated on a per member per month basis, of approximately \$63,000 and \$112,000 in 2008 and 2007, respectively, were included in hospital/medical benefits in the accompanying statutory statements of operations.

The Company has an agreement with OPTUM, a division of UHS, to provide a 24-hour call-in service, called Care24, to its enrollees. Fees related to this agreement, which are calculated on a per-member –per-month-basis, of approximately \$3,214 in 2008 and \$5,000



in 2007, are included in hospital/medical benefits in the accompanying statutory statements of operations.

The Company has a contract with United Behavioral Health (UBH), a wholly owned subsidiary of UHS, to provide mental health and substance abuse services for its enrollees. Fees related to this agreement, which are calculated on a per-member per-month basis, of approximately \$3,433,000 in 2008 and \$6,050,000 in 2007 are included in hospital/medical benefits in the accompanying statutory statements of operations. MAMSI continues to pay the mental health and substance abuse services for its enrollees and, as a result, UBH refunds the Company for the cost of claims, of approximately \$2,528,000 in 2008 and \$4,056,000 in 2007. This reimbursement is included as a reduction to hospital medical benefits in the accompanying statutory statements of operations.

At December 31, 2008 and 2007, the Company reported a related party receivable of \$1,769,000 and \$30,871,000, respectively, which are included in the statutory statements of admitted assets, liabilities, and capital and surplus. The balances are generally settled within 90 days from the incurred date.

The Company earns interest income and/or interest expense on the monthly average balance in the net receivable from/payable to affiliates, which is calculated at a fluctuating rate that approximates the prime rate. Net interest income earned by the Company was \$7,000 and \$11,000 in 2008 and 2007, respectively. Interest income/expense is included in general administrative expenses in the accompanying statutory statements of operations. These interest amounts were recorded through the receivable from parents and affiliates.

Beginning on October 11, 2004, the Company entered into a \$12,000,000 subordinated revolving credit agreement with UnitedHealth Group at an interest rate of LIBOR plus a margin of 0.5%. The credit agreement is for a one year term and automatically renews annually, unless terminated by either party. The agreement was filed with the MIA on May 28, 2004, and was accepted by the MIA on June 28, 2004, with an effective date of October 11, 2004. No amounts were outstanding under the line of credit as of December 31, 2008 or 2007. There was no interest paid on amounts borrowed under the line of credit in 2008 and 2007.

UHS contracts on behalf of the Company to provide administrative services related to pharmacy management and claims processing for its enrollees. Fees related to these agreements, which are calculated on a per claim basis, of approximately \$12,000 in 2008 and \$70,000 in 2007 are included in general administrative expenses in the accompanying statements of operations. Additionally, UHS collects rebates on certain pharmaceutical products and remits the rebates to the Company based on member utilization. Rebates related to these agreements of approximately \$4,170,000 in 2008 and \$6,602,000 in 2007 are included as a reduction of prescription drugs in the accompanying statutory basis statements of operations.

## **11. DEBT**

The Company had no outstanding debt during 2008 and 2007 with third parties.

## **12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES, AND OTHER POSTRETIREMENT BENEFIT PLANS**

The Company has no retirement plan, deferred compensation, and other benefit plans, since all personnel are employees of UHS, which provides services to the Company under the terms of a management agreement (see Note 10).

## **13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS, AND QUASI-REORGANIZATIONS**

The Company has 3,000 shares authorized and 2010 shares issued and outstanding of \$1,250 par value common stock.

Payment of dividends may be restricted by the MIA and Maryland law, which generally require that dividends be paid out of accumulated surplus.

The Company paid an extraordinary dividend to MAMSI of \$14,352,000 on December 29, 2008, which was approved by the Maryland Insurance Administration.

The portion of unassigned funds represented or reduced by each item below is as follows (in thousands):

|                          | 2008     | 2007     |
|--------------------------|----------|----------|
| Nonadmitted asset values | \$ 2,235 | \$ 6,738 |

The following surplus notes matured on June 30, 2007 after receiving approval for the transaction from the MIA. The surplus notes were paid in full, including interest, on June 27, 2007 for approximately \$14,127,000. The interest expense of \$4,227,000 is included as general and administrative expense in the statutory statement of operations.

| Date Issued        | Interest Rate | Par Value | Paid In Current Year | Interest Paid | Total Payment |
|--------------------|---------------|-----------|----------------------|---------------|---------------|
| September 30, 1999 | 6 %           | \$ 3,000  | \$ 3,000             | \$ 1,771      | \$ 4,771      |
| March 16, 2000     | 6             | 600       | 600                  | 328           | 928           |
| March 28, 2000     | 6             | 400       | 400                  | 217           | 617           |
| November 30, 2001  | 6             | 1,500     | 1,500                | 595           | 2,095         |
| February 26, 2002  | 6             | 800       | 800                  | 301           | 1,101         |
| June 30, 2002      | 6             | 500       | 500                  | 174           | 674           |
| May 1, 2003        | 6             | 1,150     | 1,150                | 326           | 1,476         |
| July 29, 2003      | 6             | 1,950     | 1,950                | 515           | 2,465         |
|                    |               | \$ 9,900  | \$ 9,900             | \$ 4,227      | \$ 14,127     |

14. CONTINGENCIES

Because of the nature of the business, the Company is routinely made party to a variety of legal actions related to the design and management of its service offerings. The Company records liabilities for our estimates of probable costs resulting from these matters. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations.

The Company believes there are no assets that it considers to be impaired at December 31, 2008 and 2007.

15. LEASES

According to the management agreement (see Note 10) between the Company and UHS, operating leases for the rental of office facilities and equipment are the responsibility of UHS. Fees associated with the agreement are included in the Company’s management fee.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Company does not hold any financial instruments with off-balance-sheet risk or concentrations of credit risk.

17. SALE, TRANSFER, AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

The Company did not participate in any transfer of receivables, financial assets, or wash sales.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED ACCIDENT AND HEALTH PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

The Company has ASC contracts, for which the employer retains all health care service risk, while the company assumes administrative risk.

The gains from operations from ASC uninsured plans was as follows during December 31, 2008 and 2007 (in thousands):

|   | 2008      | 2007      |
|---|-----------|-----------|
| Gross reimbursement for medical cost incurred | \$ 34,151 | \$ 33,188 |
| Gross administrative fees earned              | 3,440     | 4,230     |
| Gross expenses incurred                       | (34,483)  | (33,443)  |
| Total net gain from operations                | 3,108     | 3,975     |

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD-PARTY ADMINISTRATORS

The Company did not have any direct premiums written or produced by managing general agents or third-party administrators.

20. OTHER ITEMS

The Company elected to use rounding in reporting amounts in the statutory basis financial statements.

**Sub-Prime Mortgage Related Risk Exposure** - The investment policy for the Company limits investments in asset-backed securities, which includes the sub-prime issuers. Further, the policy limits investments in private-issuer mortgage securities to 10% of the portfolio, which also includes sub-prime issuers. The exposure to unrealized losses on sub-prime issuers is due only to changes in market prices. There are no realized losses due to receiving anticipated cash flows. The investments covered are rated NAIC Class 1. The Company has no direct exposure through investments in sub-prime mortgage loans. The Company has no underwriting exposure to sub-prime mortgage risk through Mortgage Guaranty of Financial Guaranty Insurance coverage.

The Company’s direct exposure through other investments as of December 31, 2008 consists of the following:

|  |           | Book Adjusted  |            | OTTI Losses        |
|--|-----------|----------------|------------|--------------------|
|  | Cost      | Carrying Value | Fair Value | Recognized To Date |
| 2008                                   |           |                |            |                    |
| Residential mortgage-backed securities | \$ 354    | \$ 355         | \$ 354     | \$ 358             |
| Alt - A                                | 820       | 819            | 684        | 250                |
| Commercial mortgage-backed securities  | 9,872     | 9,846          | 8,440      | -                  |
| Total                                  | \$ 11,046 | \$ 11,020      | \$ 9,478   | \$ 608             |

**21. EVENTS SUBSEQUENT**

There are no events subsequent to December 31, 2008 that require disclosure.

**22. REINSURANCE**

***Ceded Reinsurance Report*** —

Section 1 — General Interrogatories

- 1) Are any of the reinsurers, listed in Schedule S as affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company?

Yes ( )              No (X)

- 2) Have any policies issued by the Company been reinsured with a company chartered in a country other than the United States (excluding U.S. branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor, or an insured or any other person not primarily engaged in the insurance business?

Yes ( )              No (X)

Section 2 — Ceded Reinsurance Report — Part A

- 1) Does the Company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes ( )              No (X)

- 2) Does the reporting entity have any reinsurance agreements in effect that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes ( )              No (X)

Section 3 — Ceded Reinsurance Report — Part B

- 1) What is the estimated amount of the aggregate reduction in surplus (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of payment or other similar credits that are reflected in Section 2 above) of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the Company may consider the current or anticipated experience of the business reinsured in making this estimate.

The Company estimates there should be no aggregate reduction in surplus for termination of all reinsurance agreements as of December 31, 2008.

- 2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the Company as of the effective date of the agreement?

Yes ( )              No (X)

***Unsecured Reinsurance Recoverables*** — The Company does not have an unsecured aggregate reinsurance recoverable with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Company’s policyholder surplus.

***Reinsurance Recoverable in Dispute*** — The Company does not have a reinsurance recovery receivable balance that is being disputed by any individual reinsurer.

***Reinsurance Assumed and Ceded*** — The Company does not have a provision in its reinsurance contract to return commissions to the reinsurer in the event that the Company cancels its reinsurance policy.

**Uncollectible Reinsurance** — During 2008 and 2007, there were no uncollectible reinsurance recoverables.

***Commutation of Reinsurance*** — The Company has no commutation of reinsurance.

***Retroactive Reinsurance*** — The Company did not have a retroactive reinsurance agreement in 2008 or 2007.

## 23. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

The Company does not have any other retrospectively rated contracts or contracts subject to redetermination as of December 31, 2008 or 2007.

## 24. CHANGE IN INCURRED CLAIMS AND CLAIMS ADJUSTMENT EXPENSE

Changes in estimates related to prior years' incurred claims are included in total hospital and medical expenses in the current year in the accompanying statutory basis statements of operations. The following tables disclose paid claims, incurred claims, and the balance in the claims unpaid liability, for the years ended December 31, 2008 and 2007 (in thousands):

|                                 | 2008              |                   |                   |
|---------------------------------|-------------------|-------------------|-------------------|
|                                 | Current Year      | Prior Year        |                   |
|                                 | Incurred          | Incurred          |                   |
|                                 | Claims            | Claims            | Total             |
| Beginning of year claim reserve | \$ -              | \$ (39,177)       | \$ (39,177)       |
| Paid claims                     | 156,699           | 31,814            | 188,513           |
| End of year claim reserve       | <u>19,107</u>     | <u>800</u>        | <u>19,907</u>     |
| Incurred claims                 | <u>\$ 175,806</u> | <u>\$ (6,563)</u> | <u>\$ 169,243</u> |
|                                 |                   |                   |                   |
|                                 |                   |                   |                   |
|                                 | 2007              |                   |                   |
|                                 | Current Year      | Prior Year        |                   |
|                                 | Incurred          | Incurred          |                   |
|                                 | Claims            | Claims            | Total             |
| Beginning of year claim reserve | \$ -              | \$ (63,034)       | \$ (63,034)       |
| Paid claims                     | 268,153           | 52,727            | 320,880           |
| End of year claim reserve       | <u>37,487</u>     | <u>1,690</u>      | <u>39,177</u>     |
| Incurred claims                 | \$ 305,640        | \$ (8,617)        | \$ 297,023        |

The liability for claims unpaid at December 31, 2008, exceeded actual claims incurred in 2008 related to prior years by approximately \$6,563,000. The primary driver is a favorable development resulting from favorable claim experience and changes to the factor used when calculating reserves.

The Company incurred claims adjustment expenses of approximately \$2,974,000 in 2008 and \$3,045,000 in 2007. These costs are included in the management service fees paid by the Company to UHS as a part of its management agreements (see Note 10). The following tables disclose paid claims adjustment expenses, incurred claims adjustment expenses, and the balance in the unpaid claim adjustment expenses reserve, for the years ended December 31, 2008 and 2007 (in thousands):

|   | 2008            | 2007            |
|---|-----------------|-----------------|
|   |                 |                 |
| Total claims adjustment expenses incurred           | \$ 2,974        | \$ 3,045        |
| Less current year unpaid claims adjustment expenses | (256)           | (559)           |
| Add prior year unpaid claims adjustment expenses    | <u>559</u>      | <u>903</u>      |
| Total claims adjustment expenses paid               | <u>\$ 3,277</u> | <u>\$ 3,389</u> |
|   |                 |                 |

25. INTERCOMPANY POOLING ARRANGEMENTS

The Company did not have any intercompany pooling arrangements in 2008 or 2007.

26. STRUCTURED SETTLEMENTS

The Company did not have any structured settlements in 2008 or 2007.

27. HEALTH CARE RECEIVABLES

The Company admitted \$325,972 and \$29,000 of Virginia inpatient coordination of benefits receivable as of December 31, 2008 and 2007, respectively.

28. PARTICIPATING POLICIES

The Company did not have any participating contracts in 2008 or 2007.

29. PREMIUM DEFICIENCY RESERVE

The Company had a liability of \$0 and \$2,688,000 for premium deficiency reserves, as of December 31, 2008 and 2007, respectively. Premium deficiency reserves are included in aggregate health policy reserves in the statutory basis statements of admitted assets, liabilities, and capital and surplus. The Company did consider anticipated investment income when calculating its premium deficiency reserves.

30. ANTICIPATED SALVAGE AND SUBROGATION

Due to the type of business being written, the Company has no salvage. As of December 31, 2008 and 2007, the Company had no specific accruals established for outstanding subrogation, as it is considered a component of the actuarial calculations used to develop the estimates of incurred but not yet reported claims.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [ X ]      No [   ]

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [ X ]      No [   ]      N/A [   ]

1.3

State regulating?      Maryland Insurance Administration

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [   ]      No [ X ]

2.2

If yes, date of change:

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2006

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2006

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/30/2008

3.4

By what department or departments?      Maryland Insurance Administration

3.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments?

Yes [   ]      No [   ]      N/A [ X ]

3.6

Have all of the recommendations within the latest financial examination report been complied with?

Yes [   ]      No [ X ]      N/A [   ]

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes [   ]      No [ X ]

4.12

renewals?

Yes [   ]      No [ X ]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes [   ]      No [ X ]

4.22

renewals?

Yes [   ]      No [ X ]

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [   ]      No [ X ]

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

| 1<br>Name of Entity | 2<br>NAIC Co. Code | 3<br>State of Domicile |
|---------------------|--------------------|------------------------|
|                     |                    |                        |

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [   ]      No [ X ]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [   ]      No [ X ]

7.2

If yes,

7.21

State the percentage of foreign control

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

| 1<br>Nationality | 2<br>Type of Entity |
|------------------|---------------------|
|                  |                     |

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [   ]      No [ X ]

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [ X ]      No [   ]

8.4

If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

| 1<br>Affiliate Name    | 2<br>Location (City, State) | 3<br>FRB | 4<br>OCC | 5<br>OTS | 6<br>FDIC | 7<br>SEC |
|------------------------|-----------------------------|----------|----------|----------|-----------|----------|
| OptumHealth Bank, Inc. | Salt Lake City, Utah        | NO       | NO       | NO       | YES       | NO       |

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Deloitte & Touche LLP, Minneapolis, MN

10.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

Allen J. Sorbo, President, Chief Executive Officer, and Chief Actuary of UnitedHealthcare Insurance Company,  
an affiliate of MAMSI Life and Health Insurance Company, Hartford, CT

11.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes [   ]      No [ X ]

11.11

Name of real estate holding company

11.12

Number of parcels involved

.....

11.13

Total book/adjusted carrying value

.....

11.2

If yes, provide explanation.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

12.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

12.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [ ] No [ ]

12.3

Have there been any changes made to any of the trust indentures during the year?

Yes [ ] No [ ]

12.4

If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes [ ] No [ ] N/A [ ]

13.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [ X ] No [ ]

a.

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b.

Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c.

Compliance with applicable governmental laws, rules and regulations;

d.

The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e.

Accountability for adherence to the code.

13.11

If the response to 13.1 is No, please explain:

13.2

Has the code of ethics for senior managers been amended?

Yes [ ] No [ X ]

13.21

If the response to 13.2 is Yes, provide information related to amendment(s).

13.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [ ] No [ X ]

13.31

If the response to 13.3 is yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [ X ] No [ ]

15.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [ X ] No [ ]

16.

Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [ X ] No [ ]

FINANCIAL

17.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes [ ] No [ X ]

18.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

18.11

To directors or other officers

\$.....0

18.12

To stockholders not officers

\$.....0

18.13

Trustees, supreme or grand (Fraternal only)

\$.....0

18.2

Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

18.21

To directors or other officers

\$.....0

18.22

To stockholders not officers

\$.....0

18.23

Trustees, supreme or grand (Fraternal only)

\$.....0

19.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes [ ] No [ X ]

19.2

If yes, state the amount thereof at December 31 of the current year:

19.21

Rented from others

.....

19.22

Borrowed from others

.....

19.23

Leased from others

.....

19.24

Other

.....

20.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [ ] No [ X ]

20.2

If answer is yes:

20.21

Amount paid as losses or risk adjustment

.....

20.22

Amount paid as expenses

.....

20.23

Other amounts paid

.....

21.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [ X ] No [ ]

21.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....1,768,691

INVESTMENT

22.1

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 22.3)?

Yes [ X ] No [ ]

22.2

If no, give full and complete information relating thereto.

22.3

For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 16 where this information is also provided).

22.4

Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

Yes [ ] No [ ]

22.5

If answer to 22.4 is yes, report amount of collateral.

.....

22.6

If answer to 22.4 is no, report amount of collateral.

.....

23.1

Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3)

Yes [ X ] No [ ]



GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements

23.22 Subject to reverse repurchase agreements

23.23 Subject to dollar repurchase agreements

23.24 Subject to reverse dollar repurchase agreements

23.25 Pledged as collateral

23.26 Placed under option agreements

23.27 Letter stock or securities restricted as to sale

23.28 On deposit with state or other regulatory body

23.29 Other
- \$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....2,776,274

\$.....0

23.3 For category (23.27) provide the following:

| 1                     | 2           | 3      |
|-----------------------|-------------|--------|
| Nature of Restriction | Description | Amount |
|                       |             |        |

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB?
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?
- Yes [ ] No [X]
- No [ ] N/A [X]
- If no, attach a description with this statement.

- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?
- 25.2 If yes, state the amount thereof at December 31 of the current year:
- Yes [ ] No [X]
- .....

26. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?
- Yes [X] No [ ]

26.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

| 1                    | 2                                       |
|----------------------|---|
| Name of Custodian(s) | Custodian's Address                     |
| State Street Bank    | 801 Pennsylvania, Kansas City, MO 64105 |

26.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

| 1       | 2           | 3                       |
|---------|-------------|-------------------------|
| Name(s) | Location(s) | Complete Explanation(s) |
|         |             |                         |

- 26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?
- Yes [ ] No [X]

26.04 If yes, give full and complete information relating thereto:

| 1             | 2             | 3              | 4      |
|---------------|---------------|----------------|--------|
| Old Custodian | New Custodian | Date of Change | Reason |
|               |               |                |        |

26.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

| 1   | 2  | 3                                   |
|---|--|-------------------------------------|
| Central Registration Depository Number(s) | Name   | Address                             |
| 104518                                    | Deutsche Investment Management Americas Inc. | 345 Park Avenue, New York, NY 10154 |

- 27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])?
- Yes [ ] No [X]

27.2 If yes, complete the following schedule:

| 1              | 2                   | 3                       |
|----------------|---------------------|-------------------------|
| CUSIP #        | Name of Mutual Fund | Book/Adj.Carrying Value |
|                |                     |                         |
| 27.2999. TOTAL |                     | 0                       |

27.3 For each mutual fund listed in the table above, complete the following schedule:

| 1   | 2   | 3   | 4                 |
|---|---|---|-------------------|
| Name of Mutual Fund<br>(from the above table) | Name of Significant Holding<br>of the Mutual Fund | Amount of Mutual<br>Fund's Book/Adjusted<br>Carrying Value<br>Attributable to Holding | Date of Valuation |
|   |   |   |                   |

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

|                            | 1                                | 2                | 3  |
|----------------------------|----------------------------------|------------------|--|
|                            | Statement<br>(Admitted)<br>Value | Fair<br>Value    | Excess of Statement<br>over Fair Value (-),<br>or Fair Value over<br>Statement (+) |
| 28.1 Bonds.....            | .....186,181,313                 | .....185,708,526 | .....(472,787)   |
| 28.2 Preferred stocks..... |                                  |                  | .....0   |
| 28.3 Totals.....           | .....186,181,313                 | .....185,708,526 | .....(472,787)   |

- 28.4 Describe the sources or methods utilized in determining the fair values:
- For those securities that had prices in the NAIC SVO ISIS database, those prices were used; for those securities that did not have prices in NAIC SVO ISIS database, GAAP pricing was GAAP pricing was obtained from HUB which is an external data sources vendor. HUB unitilizes various pricing sources.

- 29.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?
- 29.2 If no, list exceptions:
- Yes [X] No [ ]

OTHER

- 30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?
- 30.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.
- \$.....0

| 1    | 2           |
|------|-------------|
| Name | Amount Paid |
|      |             |

Statement as of December 31, 2008 of the

MAMSI Life and Health Insurance Company

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

31.1

Amount of payments for legal expenses, if any?

\$.....7,810

31.2

List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

| 1<br>Name             | 2<br>Amount Paid |
|-----------------------|------------------|
| Shipman & Goodwin LLP | 7,810            |

32.1

Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?

\$.....0

32.2

List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

| 1<br>Name | 2<br>Amount Paid |
|-----------|------------------|
|           |                  |

MAMSI Life and Health Insurance Company  
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

- 1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [ ☐ ]

No [ ☒ ]
- 1.2

If yes, indicate premium earned on U.S. business only

.....
- 1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

.....
- 1.31

Reason for excluding

.....

- 1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

.....
- 1.5

Indicate total incurred claims on all Medicare Supplement insurance.

.....
- 1.6

Individual policies:

Most current three years:

1.61

Total premium earned

.....

1.62

Total incurred claims

.....

1.63

Number of covered lives

.....

All years prior to most current three years:

1.64

Total premium earned

.....

1.65

Total incurred claims

.....

1.66

Number of covered lives

.....
- 1.7

Group policies:

Most current three years:

1.71

Total premium earned

.....

1.72

Total incurred claims

.....

1.73

Number of covered lives

.....

All years prior to most current three years:

1.74

Total premium earned

.....

1.75

Total incurred claims

.....

1.76

Number of covered lives

.....

2.

Health test:

|                                  | 1<br>Current Year | 2<br>Prior Year  |
|----------------------------------|-------------------|------------------|
| 2.1 Premium Numerator.....       | .....236,009,097  | .....373,107,236 |
| 2.2 Premium Denominator.....     | .....236,009,097  | .....375,828,034 |
| 2.3 Premium Ratio (2.1/2.2)..... | .....100.0        | .....99.3        |
| 2.4 Reserve Numerator.....       | .....20,246,604   | .....42,428,337  |
| 2.5 Reserve Denominator.....     | .....20,646,236   | .....42,855,493  |
| 2.6 Reserve Ratio (2.4/2.5)..... | .....98.1         | .....99.0        |

- 3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits?

Yes [ ☐ ]

No [ ☒ ]
- 3.2

If yes, give particulars:

.....

- 4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [ ☒ ]

No [ ☐ ]
- 4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [ ☐ ]

No [ ☒ ]
- 5.1

Does the reporting entity have stop-loss reinsurance?

Yes [ ☐ ]

No [ ☒ ]
- 5.2

If no, explain:

MAMSI Life and Health Insurance Company is self-insured.

- 5.3

Maximum retained risk (see instructions):
- 5.31

Comprehensive medical

\$.....0
- 5.32

Medical only

\$.....0
- 5.33

Medicare supplement

\$.....0
- 5.34

Dental and vision

\$.....0
- 5.35

Other limited benefit plan

\$.....0
- 5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

The Company has hold harmless clauses in contracts with participating providers, positive net worth, and statutory deposits with various states.

- 7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [ ☒ ]

No [ ☐ ]
- 7.2

If no, give details:

.....

8.

Provide the following information regarding participating providers:
- 8.1

Number of providers at start of reporting year

.....44,671
- 8.2

Number of providers at end of reporting year

.....58,089

- 9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [ ☐ ]

No [ ☒ ]
- 9.2

If yes, direct premium earned:

9.21

Business with rate guarantees between 15-36 months

.....

9.22

Business with rate guarantees over 36 months

.....

- 10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [ ☐ ]

No [ ☒ ]
- 10.2

If yes:

10.21

Maximum amount payable bonuses

.....

10.22

Amount actually paid for year bonuses

.....

10.23

Maximum amount payable withholds

.....

10.24

Amount actually paid for year withholds

.....

MAMSI Life and Health Insurance Company

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes [ ]

No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [X]

No [ ]

11.3 If yes, show the name of the state requiring such net worth.

Maryland

11.4 If yes, show the amount required.

\$.....1,125,000

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes [ ]

No [X]

11.6 If the amount is calculated, show the calculation:

12. List service areas in which reporting entity is licensed to operate:

1

Name of Service Area

The Company is licensed in 31 states and the District of Columbia (see Schedule T)

MAMSI Life and Health Insurance Company  
FIVE-YEAR HISTORICAL DATA

|  | 1<br>2008   | 2<br>2007   | 3<br>2006   | 4<br>2005   | 5<br>2004   |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Balance Sheet Items (Pages 2 and 3)</b>   |             |             |             |             |             |
| 1. Total admitted assets (Page 2, Line 26).....  | 194,919,160 | 200,746,311 | 174,185,822 | 155,430,164 | 212,454,915 |
| 2. Total liabilities (Page 3, Line 22).....  | 26,728,592  | 57,230,252  | 77,089,028  | 76,944,903  | 105,153,134 |
| 3. Statutory surplus.....  | 14,444,458  | 24,802,646  | 33,684,616  | 5,877,130   | 6,914,630   |
| 4. Total capital and surplus (Page 3, Line 31).....  | 168,190,568 | 143,516,059 | 97,096,794  | 78,485,261  | 107,301,780 |
| <b>Income Statement Items (Page 4)</b>   |             |             |             |             |             |
| 5. Total revenues (Line 8).....  | 236,220,597 | 404,201,399 | 546,938,859 | 579,438,749 | 684,054,582 |
| 6. Total medical and hospital expenses (Line 18).....  | 169,802,477 | 299,526,024 | 418,434,873 | 403,147,214 | 523,261,525 |
| 7. Claims adjustment expenses (Line 20).....   | 2,973,856   | 3,045,317   | 4,893,863   | 9,037,515   | 4,578,157   |
| 8. Total administrative expenses (Line 21).....  | 17,594,147  | 35,077,647  | 48,009,213  | 41,324,816  | 44,708,634  |
| 9. Net underwriting gain (loss) (Line 24).....   | 47,763,517  | 63,431,203  | 74,260,830  | 122,959,460 | 109,116,701 |
| 10. Net investment gain (loss) (Line 27).....  | 5,914,027   | 8,382,704   | 6,240,889   | 6,242,366   | 13,218,870  |
| 11. Total other income (Lines 28 plus 29).....   | (228,777)   | 457,037     | (192,654)   | 5,811       | 87,085      |
| 12. Net income or (loss) (Line 32).....  | 35,580,065  | 47,653,944  | 54,359,065  | 87,637,676  | 85,056,745  |
| <b>Cash Flow (Page 6)</b>  |             |             |             |             |             |
| 13. Net cash from operations (Line 11).....  | 9,799,810   | 32,986,469  | 61,661,909  | 56,401,951  | 40,505,138  |
| <b>Risk-Based Capital Analysis</b>   |             |             |             |             |             |
| 14. Total adjusted capital.....  | 168,190,568 | 143,516,059 | 97,096,794  | 78,485,261  | 107,301,780 |
| 15. Authorized control level risk-based capital.....   | 7,222,229   | 12,401,323  | 16,842,308  | 16,087,830  | 20,229,041  |
| <b>Enrollment (Exhibit 1)</b>  |             |             |             |             |             |
| 16. Total members at end of period (Column 5, Line 7).....   | 95,449      | 142,033     | 197,583     | 236,247     | 303,839     |
| 17. Total member months (Column 6, Line 7).....  | 1,398,308   | 1,964,295   | 2,649,294   | 3,216,892   | 3,801,527   |
| <b>Operating Percentage (Page 4)</b><br><b>(Item divided by Page 4, sum of Lines 2, 3, and 5) x 100 .0</b> |             |             |             |             |             |
| 18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....                                     | 100.0       | 100.0       | 100.0       | 100.0       | 100.0       |
| 19. Total hospital and medical plus other non-health (Line 18 plus Line 19)....                            | 72.2        | 74.3        | 76.8        | 70.2        |             |
| 20. Cost containment expenses.....   | 0.6         | 0.3         | 0.2         | 0.5         |             |
| 21. Other claims adjustment expenses.....  | 0.6         | 0.5         | 0.7         | 1.0         |             |
| 22. Total underwriting deductions (Line 23).....   | 79.8        | 84.3        | 86.4        | 78.9        | 84.1        |
| 23. Total underwriting gain (loss) (Line 24).....  | 20.2        | 15.7        | 13.6        | 21.3        | 16.0        |
| <b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>   |             |             |             |             |             |
| 24. Total claims incurred for prior years (Line 13 Col. 5).....  | 31,750,474  | 51,834,786  | 64,311,662  | 74,651,393  | 73,606,590  |
| 25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]                                  | 37,624,166  | 59,296,460  | 59,829,979  | 86,649,843  | 88,252,547  |
| <b>Investments in Parent, Subsidiaries and Affiliates</b>  |             |             |             |             |             |
| 26. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....  |             |             |             |             |             |
| 27. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....                                     |             |             |             |             |             |
| 28. Affiliated common stocks (Sch D. Summary, Line 53, Col. 1).....  |             |             |             |             |             |
| 29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10)..... |             |             |             |             |             |
| 30. Affiliated mortgage loans on real estate.....  |             |             |             |             |             |
| 31. All other affiliated.....  |             |             |             |             | 18,851,511  |
| 32. Total of above Lines 26 to 31.....   | 0           | 0           | 0           | 0           | 18,851,511  |

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

|             |  | 1             | Direct Business Only       |                      |                    |  |  |                             |                           |                        |
|-------------|--|---------------|----------------------------|----------------------|--------------------|--|--|-----------------------------|---------------------------|------------------------|
|             |  |               | 2                          | 3                    | 4                  | 5  | 6  | 7                           | 8                         | 9                      |
| State, Etc. |  | Active Status | Accident & Health Premiums | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Program Premiums | Life & Annuity Premiums and Other Considerations | Property/ Casualty Premiums | Total Columns 2 Through 7 | Deposit-Type Contracts |
| 1.          | Alabama.....   | AL...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 2.          | Alaska.....  | AK...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 3.          | Arizona.....   | AZ...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 4.          | Arkansas.....  | AR...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 5.          | California.....  | CA...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 6.          | Colorado.....  | CO...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 7.          | Connecticut.....   | CT...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 8.          | Delaware.....  | DE...L.....   | ...5,102,949               |                      |                    |  | ...65,192  |                             | ...5,168,141              | .....                  |
| 9.          | District of Columbia.....                                      | DC...L.....   | ...47,105,685              |                      |                    |  | ...109,977                                       |                             | ...47,215,662             | .....                  |
| 10.         | Florida.....   | FL...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 11.         | Georgia.....   | GA...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 12.         | Hawaii.....  | HI...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 13.         | Idaho.....   | ID...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 14.         | Illinois.....  | IL...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 15.         | Indiana.....   | IN...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 16.         | Iowa.....  | IA...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 17.         | Kansas.....  | KS...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 18.         | Kentucky.....  | KY...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 19.         | Louisiana.....   | LA...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 20.         | Maine.....   | ME...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 21.         | Maryland.....  | MD...L.....   | ...129,685,686             |                      |                    |  | ...951,774                                       |                             | ...130,637,460            | .....                  |
| 22.         | Massachusetts.....   | MA...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 23.         | Michigan.....  | MI...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 24.         | Minnesota.....   | MN...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 25.         | Mississippi.....   | MS...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 26.         | Missouri.....  | MO...L.....   | .....17,893                |                      |                    |  | ...123,151                                       |                             | .....141,044              | .....                  |
| 27.         | Montana.....   | MT...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 28.         | Nebraska.....  | NE...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 29.         | Nevada.....  | NV...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 30.         | New Hampshire.....   | NH...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 31.         | New Jersey.....  | NJ...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 32.         | New Mexico.....  | NM...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 33.         | New York.....  | NY...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 34.         | North Carolina.....  | NC...L.....   | .....11,069                |                      |                    |  | ...6,986   |                             | ...18,055                 | .....                  |
| 35.         | North Dakota.....  | ND...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 36.         | Ohio.....  | OH...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 37.         | Oklahoma.....  | OK...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 38.         | Oregon.....  | OR...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 39.         | Pennsylvania.....  | PA...L.....   | .....16,416                |                      |                    |  | ...3,667   |                             | ...20,083                 | .....                  |
| 40.         | Rhode Island.....  | RI...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 41.         | South Carolina.....  | SC...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 42.         | South Dakota.....  | SD...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 43.         | Tennessee.....   | TN...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 44.         | Texas.....   | TX...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 45.         | Utah.....  | UT...L.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 46.         | Vermont.....   | VT...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 47.         | Virginia.....  | VA...L.....   | ...44,245,044              |                      |                    |  | ...351,467                                       |                             | ...44,596,511             | .....                  |
| 48.         | Washington.....  | WA...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 49.         | West Virginia.....   | WV...L.....   | ...8,158,972               |                      |                    |  | ...53,169  |                             | ...8,212,141              | .....                  |
| 50.         | Wisconsin.....   | WI...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 51.         | Wyoming.....   | WY...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 52.         | American Samoa.....  | AS...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 53.         | Guam.....  | GU...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 54.         | Puerto Rico.....   | PR...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 55.         | U.S. Virgin Islands.....                                       | VI...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 56.         | Northern Mariana Islands.....                                  | MP...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 57.         | Canada.....  | CN...N.....   |                            |                      |                    |  |  |                             | .....0                    | .....                  |
| 58.         | Aggregate Other alien.....                                     | ...XXX.....   | .....0                     | .....0               | .....0             | .....0   | .....0   | .....0                      | .....0                    | .....0                 |
| 59.         | Subtotal.....  | ...XXX.....   | 234,343,714                | .....0               | .....0             | .....0   | 1,665,383  | .....0                      | 236,009,097               | .....0                 |
| 60.         | Reporting entity contributions for Employee Benefit Plans..... | ...XXX.....   |                            |                      |                    |  |  |                             | .....0                    |                        |
| 61.         | Total (Direct Business).....                                   | (a).....32    | 234,343,714                | .....0               | .....0             | .....0   | 1,665,383  | .....0                      | 236,009,097               | .....0                 |

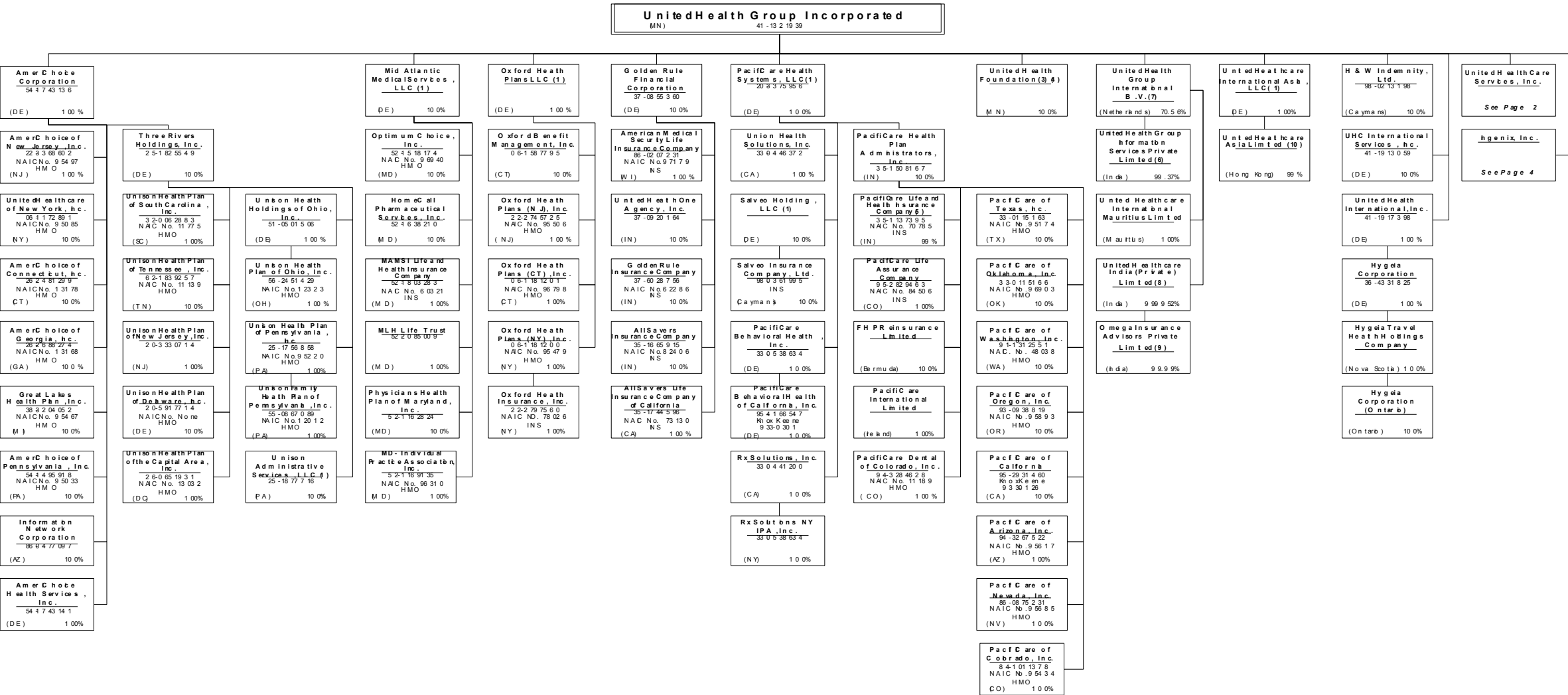
DETAILS OF WRITE-INS

|       |   |  |        |        |        |        |        |        |        |        |
|-------|---|--|--------|--------|--------|--------|--------|--------|--------|--------|
| 5801. | .....   |  |        |        |        |        |        |        | .....0 | .....  |
| 5802. | .....   |  |        |        |        |        |        |        | .....0 | .....  |
| 5803. | .....   |  |        |        |        |        |        |        | .....0 | .....  |
| 5898. | Summary of remaining write-ins for line 58.....         |  | .....0 | .....0 | .....0 | .....0 | .....0 | .....0 | .....0 | .....0 |
| 5899. | Total (Lines 5801 thru 5803 + 5898) (Line 58 above).... |  | .....0 | .....0 | .....0 | .....0 | .....0 | .....0 | .....0 | .....0 |

Explanation of basis of allocation by states, premiums by state, etc.

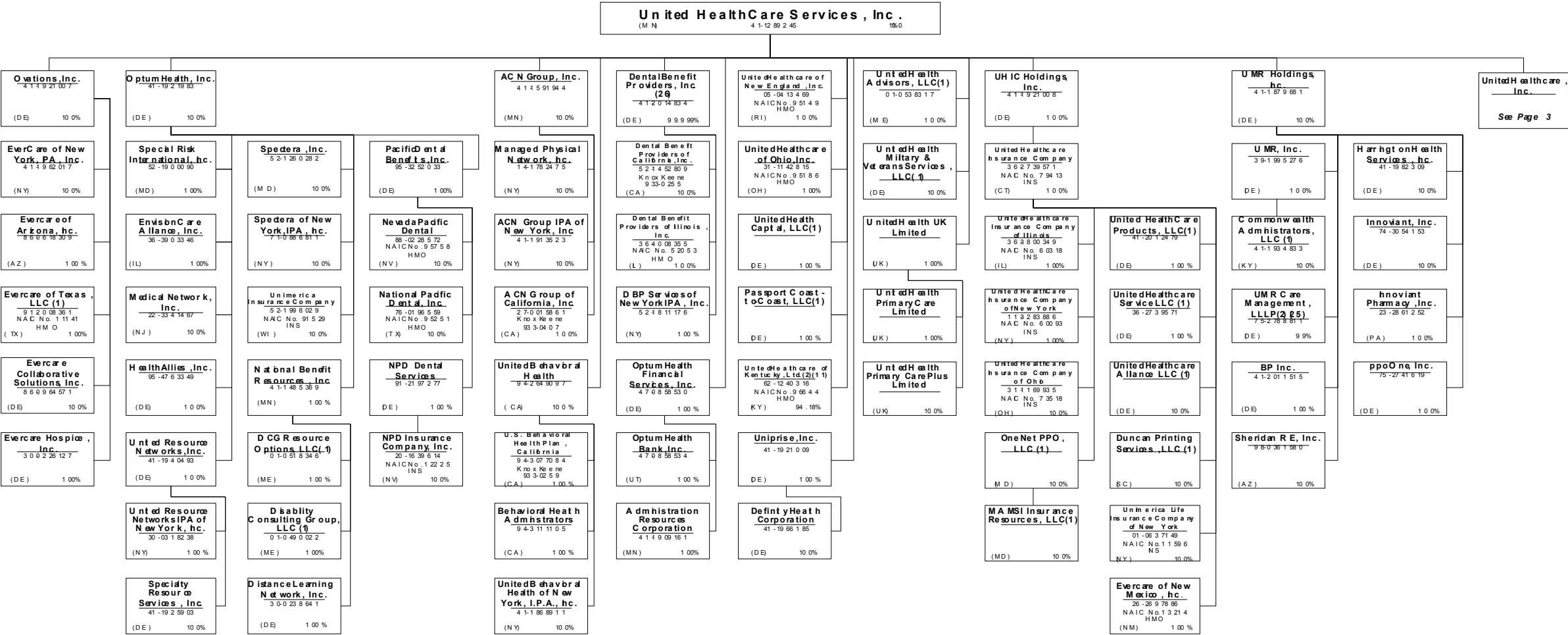
(a) Insert the number of L responses except for Canada and Other Alien.

**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
PART 1 - ORGANIZATIONAL CHART



**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
PART 1 - ORGANIZATIONAL CHART

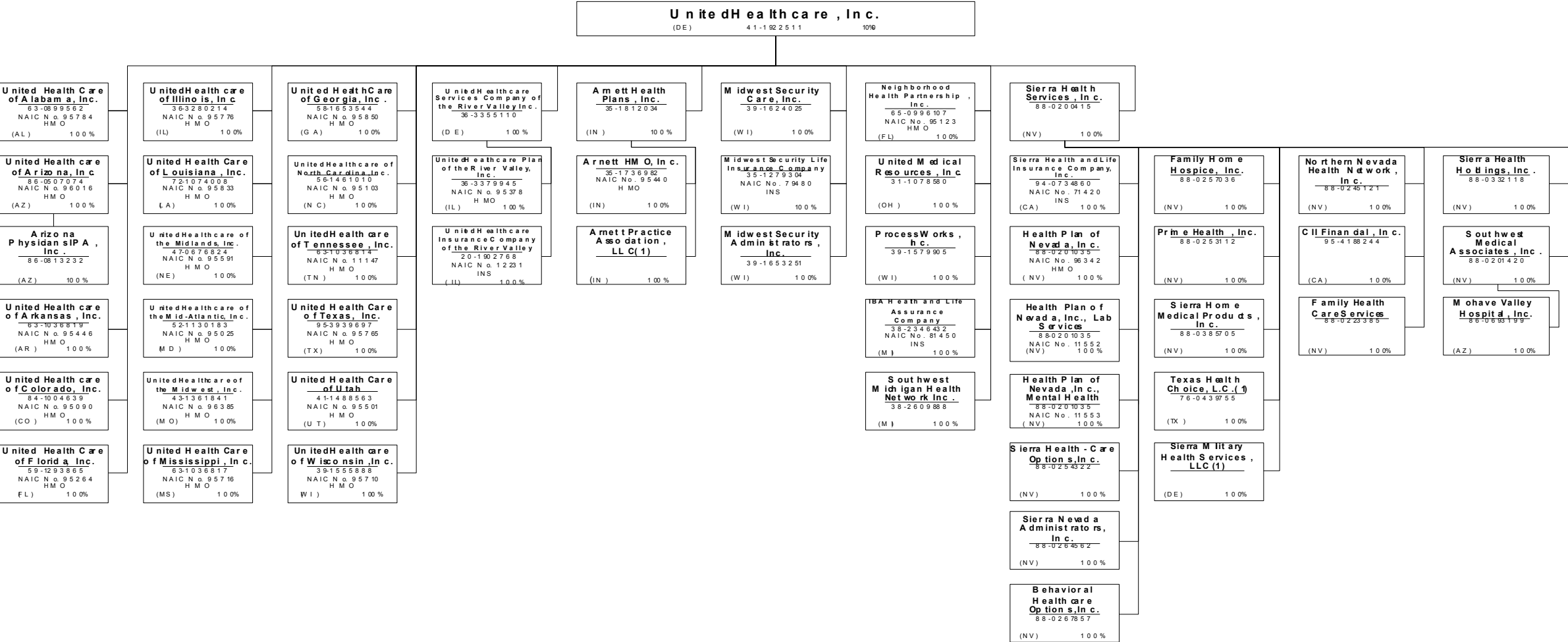
38.1



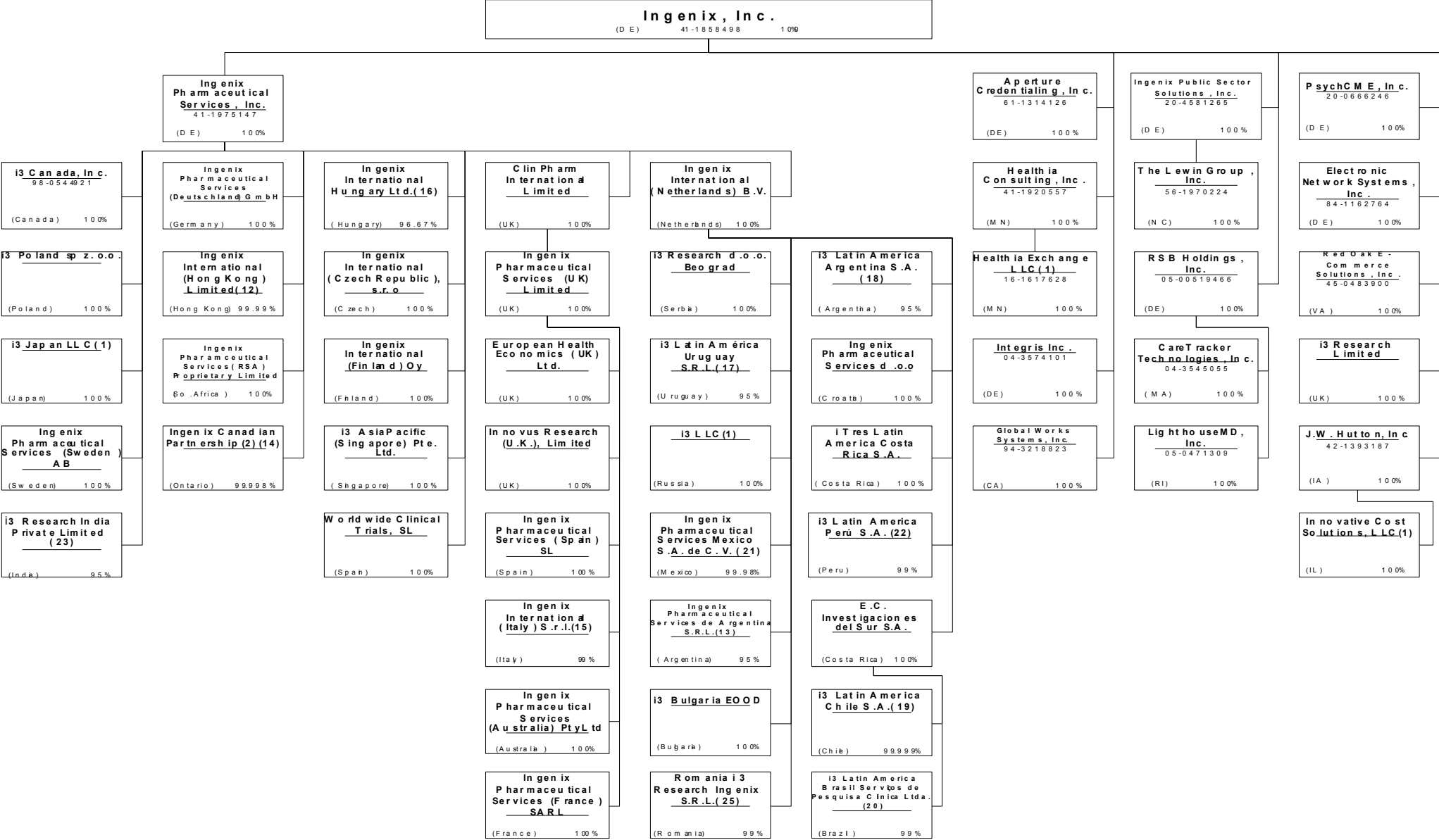


**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
PART 1 - ORGANIZATIONAL CHART

38.2



**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
**PART 1 - ORGANIZATIONAL CHART**



SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART

Notes

All legal entities on the Organization Chart are Corporations unless otherwise indicated.

(1) Entity is a Limited Liability Company

(2) Entity is a Partnership

(3) Entity is a Non-Profit Corporation

(4) Control of the Foundation is based on sole membership, not the ownership of voting securities

(5) Pacificare Life and Health Insurance Company is 99% owned by Pacificare Health Plan Administrators, Inc. and 1% owned by Pacificare Health Systems, LLC

(6) United Health Group Information Services Private Limited is 99.37% owned by United Health Group International B.V.. The remaining 0.63% is owned by United Health International, Inc.

(7) United Health Group International B.V. is 70.56% owned by United Health Group Incorporated and 29.44% owned by United HealthCare Services, Inc.

(8) United HealthCare India (Private) Limited is 99.9952% owned by United Health Group International B.V. and 0.0048% owned by United Health International, Inc.

(9) Omega Insurance Advisors Private Limited is 99.99% owned by United HealthCare India (Private) Limited and 0.01% owned by an individual shareholder

(10) United HealthCare Asia Limited is 99% owned by United HealthCare International Asia, LLC and 1% owned by United Health International, Inc.

(11) General partnership interests are held by United HealthCare Services, Inc. (89.77%) and by United HealthCare, Inc. (10.23%). United HealthCare Services, Inc. also holds 100% of the limited partnership interests. When combining general and limited partner interests, United HealthCare Services, Inc. owns 94.18% and United HealthCare, Inc. owns 5.83%.

(12) Ingenix International (Hong Kong) Limited is 99.99% owned by Ingenix Pharmaceutical Services, Inc. and 0.01% owned by Ingenix, Inc.

(13) Ingenix Pharmaceutical Services de Argentina S.R.L. is 95% owned by Ingenix International (Netherlands) B.V. and 5% owned by Ingenix, Inc.

(14) Ingenix Canada Partnership is 99.998% owned by Ingenix Pharmaceutical Services, Inc. and 0.002% owned by Ingenix, Inc.

(15) Ingenix International (Italy) S.r.l. is 99% owned by Ingenix Pharmaceutical Services (UK) Limited and 1% owned by Ingenix Pharmaceutical Services, Inc.

(16) Ingenix International Hungary Ltd. is 96.67% owned by Ingenix Pharmaceutical Services, Inc. and 3.33% owned by Ingenix, Inc.

(17) i3 Latin America Uruguay S.R.L. is 95% owned by Ingenix International (Netherlands) B.V. and 5% owned by Ingenix Pharmaceutical Services, Inc.

(18) i3 Latin America Argentina S.A. is 95% owned by Ingenix International (Netherlands) B.V. and 5% owned by Ingenix Pharmaceutical Services, Inc.

(19) i3 Latin America Chile S.A. is 99.999% owned by E.C. Investigaciones del Sur S.A. and 0.0001% owned by Ingenix Pharmaceutical Services, Inc.

(20) i3 Latin America Brasil Serviços de Pesquisa Clínica Ltda. is 99% owned by E.C. Investigaciones del Sur S.A. and 1% owned by Ingenix Pharmaceutical Services, Inc.

(21) Ingenix Pharmaceutical Services Mexico S.A. de C.V. is 99.98% owned by Ingenix International (Netherlands) B.V. and 2.36% owned by E.C. Investigaciones del Sur S.A.. The remaining 0.02% is owned by i3 Latin America Argentina S.A..

(22) i3 Latin America Perú S.A. is 99% owned by Ingenix International (Netherlands) B.V. and 1% owned by i3 Latin America Argentina S.A.

(23) i3 Research India Private Limited is 95% owned by Ingenix Pharmaceutical Services, Inc. and 5% owned by Ingenix, Inc.

(24) Limited partnership interest is held by UMR Holdings, Inc. (99%). General partnership interest is held by UMR, Inc. (1%).

(25) Romania i3 Research Ingenix S.R.L. is 99% owned by Ingenix International (Netherlands) B.V. and 1% owned by Ingenix Pharmaceutical Services (UK) Limited

(26) Dental Benefit Providers, Inc. is 99.999% owned by United HealthCare Services, Inc. and 0.001% owned by Pacific Dental Benefits, Inc.

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HEALTH ANNUAL STATEMENT BLANK

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